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Help for Starving Nations

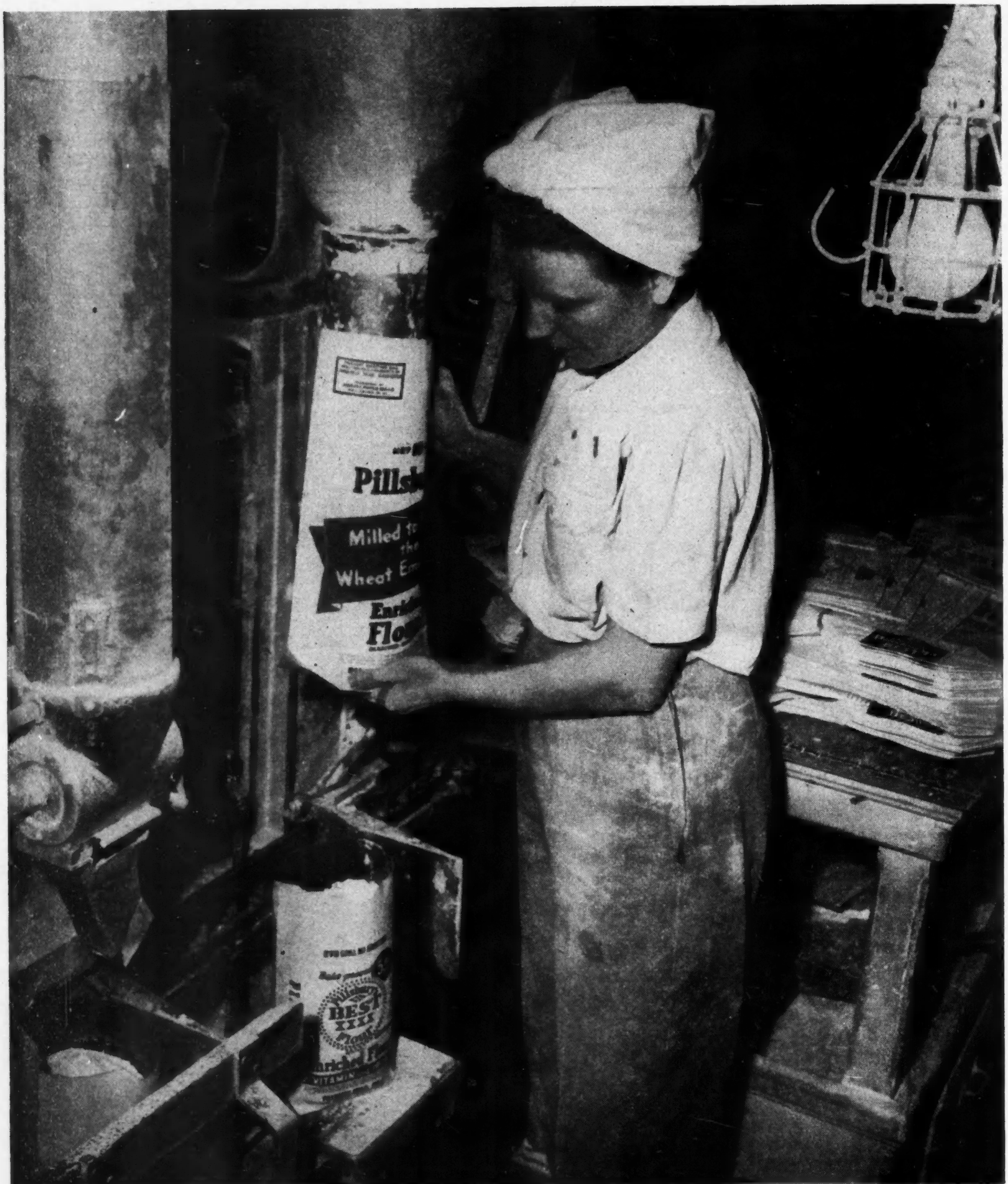
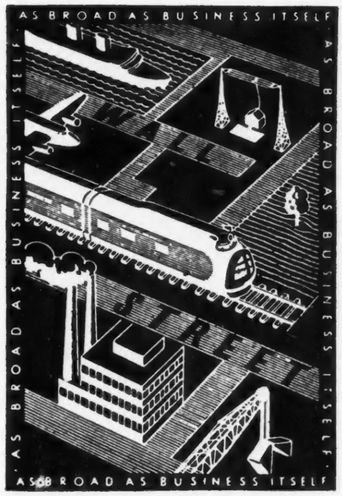


Photo by Press Association

Flour millers are alert to cooperate with Washington in supplying the urgent food needs of hungry Europeans. With output limited to 75% of normal and inventories of wheat restricted to a twenty-one days supply, the millers wisely are sacrificing a bit of color standard to use more of the grain content than formerly. By this process, consumers not averse to a slightly darker flour may not feel the bread and cake shortage so acutely during the emergency.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*



The Trend of Events

DIVERGENT MARKET TRENDS . . . A more convincing argument for selective investment policy could hardly be imagined than the performance of the stock market for the year to date. While superficially, the public speaks of "the market" moving in this or that direction, what actually happens is that the various industrial groups which comprise the stock list usually show marked divergence. For example, although the Magazine of Wall Street Index of 300 stocks scored a 10% advance since the first of the year, some groups recorded much more impressive gains, while others, by contrast, have actually declined. The most conspicuous price gains have been recorded by the amusement shares, which have advanced 44% since the year began, while textiles showing a 41% increment and drugs with a 40% rise follow closely in order. Retail equities also turned in a creditable performance, with mail order shares up 39%, department stores 38% and food stores 33%. But while these segments ran well ahead of the market as a whole, there have been outstanding laggards. The airlines and radio groups have each actually scored a 15% decline in the face of rising averages, while communications down 12%, aircraft 8%, gold mining 7%, railroad 3% and automobiles 2% clearly refute the fallacy of random selection of stocks for participation in a broad market move. There are, obviously, sound reasons for the sharply contrasting trends shown by these various groups, such as strikes, reconversion delays and the diverse position of different industries at the present time. But to call attention to the forces shaping the divergent movements is only to substantiate what has long been advocated in these columns, namely, a carefully discriminating investment policy rather than a hit-and-miss procedure in an attempt to pace the stock averages.

PRESENTING MANAGEMENT'S SIDE . . . At a time when the free enterprise system is being challenged from all sides, it is passing strange to find stockholders in large corporations showing an anti-management bias. A public opinion poll recently conducted brought to light some curious facts concerning shareholders' attitudes on administrative problems, particularly in the field of labor relations. The survey brought out into the open what has long been perceptible to discerning observers, namely, that management is being blamed indiscriminately by many who should know better. That labor has its side of the story, and that it may well have just grievances in some cases is conceded by any fair-minded observer. The practice of "labor baiting" is all too clearly the mark of blind reaction, but there is such a thing as "management baiting", too, which is equally reprehensible. Aside from its basic unfairness, in most cases, criticism of corporate officers seems peculiarly illogical on the part of the owners of a business to whom these officers are responsible. In effect, it is a repudiation of their own judgment in selecting these men in the first place. But the really important point at issue far transcends the mere interests of individual corporations here and there. What is emphasized only too clearly by this trend is that management is missing a vital opportunity to present its case effectively before the public and even before its own stockholders.

Organized labor, by contrast, is aggressively propaganda minded, and loses no opportunity to present its case in the most favorable light. One of the axioms of public relations is not only to be right but to appear right, and in this all-important respect, the initiative has been virtually monopolized by labor and radical elements. With what effectiveness this propaganda is being waged has already been demonstrated by the critical attitude of those who should be management's ally — corporation shareholders. For the sake not only of the individual corporations represented, but of the free enterprise system itself, it is to be hoped that business will capitalize its opportunities and enlist public opinion on its side. Failure to recognize the signs of the times and to act accordingly may be tantamount to losing by default to the aggressive enemies of economic freedom.

IMPORTANT TRADE CHANGES . . . In following the day-to-day tides of the investment market, it is sometimes easy to forget that the latter is, in effect, the composite of the thousands of lesser-known markets for products and services throughout the country. Whatever happens in these many marts of trade and industry is ultimately reflected in security values. At present, certain basic changes are in the making which may well influence manufacturers' and distributors' profit margins in the future. One of the significant trends at present is the proposal by trade groups for an overhauling of our trade discount structure. Marketing analysts have recognized for years that many of our discount practices are outmoded and in some cases, inequitable and uneconomic. In contrast with the strides we have made in production and technology, our distribution apparatus is far behind the times. The problem is to gear it to the dynamic economy of 1946, and if a more realistic trade discount structure results from the present studies, it will go a long way in facilitating the flow of goods and service from producer to consumer. Agitation for such reform comes at a particularly appropriate time, since there are evidences that the war-nurtured "seller's market" has about run its course. Though the consuming public is still buying avidly, they are exercising a discrimination not seen since the pre-war days. Shoddy merchandise and dubious quality are being shunted aside and shoppers are once again insisting on a full dollar's worth of value. A renewed sense of basic values, plus a more realistic discount structure, augur favorably for the future of the nation's distribution machinery, and, in turn, for the economy as a whole.

THE SHOWDOWN . . . A frightening example of how a few power-crazed labor despots can bring a mighty nation to its knees was all too clearly demonstrated in the recent coal-railroad crisis. That it had to be broken by a threat of force is regrettable, but certainly the peril to the nation as a whole was far worse than any possible misuse of the "work or draft" remedy which was adopted only as a last resort. What is particularly curious, however, is the public reaction to the President's proposal once the immediate crisis had passed. That his threat would be denounced as Fascism by the left wing elements occasioned no surprise, but to hear more conservative quarters clamor for "action" while the crisis mounted and then condemn the very same action when the immediate danger passed seems hardly consistent. Actually, however, the danger has really not passed, but has only subsided temporarily, and only realistic labor legislation can provide a lasting solution to the problem. At this writing, prospects for really effective legislation are not promising, in view of the manner in which the Case Bill has thus far been devitalized. Implemented by threats of political reprisal and an aggressive counter-campaign, the vested interests of Big Labor are bringing pressure to bear where it will do the most good. But while the battle is being joined in the nation's legislative halls, the spectre of the maritime strike looms in the background, serving as a grim reminder of the dangers yet to come. The time for a showdown has come, and unless realistic statesmanship is demonstrated, the effects might well be disastrous.

SALUTE TO CURB EXCHANGE—It seems almost incredible that twenty-five years have passed since the New York Curb Exchange moved indoors from the curbstone location from which it derives its name. Old timers can recall when outdoor security trading was a veritable institution of the financial district. There was something colorful and intriguing in the sign language and gestures whereby traders signaled their commitments from the street level to the windows of nearby brokerage houses. The whole business had started informally enough years before, as little groups of investors met to transact their deals. It was not unlike the early beginnings of the "Big Board" under the historic buttonwood tree, but as time went on and the volume of trading increased, the arrangement was no longer adequate. And so this month, the Curb celebrates its silver anniversary as a formal investment market with a roof over its head. It seems appropriate, therefore, at this time to reemphasize the role which this exchange plays in the nation's investment machinery. Unfortunately the misimpression exists in some quarters that Curb-traded issues represent intrinsically speculative propositions. All that is needed to dispel this notion is a glance down the list of Curb securities, where a goodly cross section of American industry is represented. Some idea of the Curb's position in the financial realm is indicated by the 863 stocks dealt in, having an aggregate value of around $15,000,000,000, and 138 bond issues worth about $1,900,000,000. Turnover of over 143,000,000 shares last year was the highest since 1930. Having established itself as a foremost trading mart, the curb enters its second quarter century indoors with the plaudits and well wishes of the investing public.

As I See It!

BY CHARLES BENEDICT

Has the Turn Come?

Behind the curtain of gloom which beclouds international relations today appear gleams of light, which, if true, may provide hope for a troubled world. Latest reports hint at a radical change in the Kremlin's attitude toward the rest of the world, from a policy of intransigeance to one of conciliation and accord.

It is still much too early for elation on the prospects, much less for credence of these reports at their face value. No one outside Russia can predict flatly just what the Soviet's future policy will be, but it is nevertheless possible to analyze certain known factors underlying the situation. Certain divergent trends are in motion at the present time, and what the ultimate outcome will be depends upon which forces finally prevail.

GOING MY WAY?

Ever since the Bolshevik Revolution, there have been two major schools of thought in the Kremlin with regard to expansion. What might be called the "isolationist" faction favored a concentration of Russia's efforts within her own borders, building up the domestic economy and, in effect, ignoring the rest of the world.

On the other hand, there has existed, since the days of Peter the Great, the imperialist school which has long advocated acquisition of "warm water" ports and the expansion of Russian *influence* as well as territory in certain stategic areas of the globe. It is when this point is realized that many Russian maneuvers of the past year take on a special significance. Outright territorial acquisition alone is not the prime objective in most cases; if "spheres of influence" or puppet governments can be realized, that is a satisfactory accomplishment, at least for the present. Viewed in this light, Soviet moves in eastern Europe, the Mediterranean, Iran, India and China begin to form a meaningful pattern.

The expansionist party in Moscow has virtually the same geopolitical strategy as Hitler's Dr. Haushofer, and combines with this coldly scientific reasoning the crusading zeal of our own American "manifest destiny" advocates of a century ago.

But quite aside from the opposition of the moderates at home, the imperialists were unable for decades to translate their policies into concrete action, primarily because the balance of world power, and especially the European alignment of power, prevented it. However, when the Continental balance was upset by the crushing of Germany and the decline of France and Italy, the restraints on Russian expansion were weakened and for the first time in centuries, the Kremlin saw her cherished dreams within realization. It is noteworthy that all Soviet moves to date have followed the classical Czarist pattern to the letter—Iran, the Far East, the Mediterranean, India and so forth. Still more significant in this connection is the move to make Russia a first class seapower, implemented by a strong navy and a large merchant marine.

With the vacuum created by the decline of the western powers, Soviet strength quite easily expanded in all directions without much opposition for awhile, but the resis- (*Please turn to page* 308)

New Market Trends in the Making

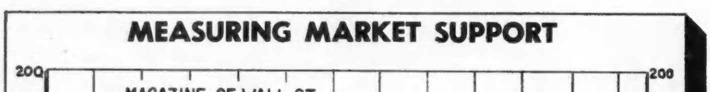
The market has made further moderate progress, with formerly laggard heavy-industry groups taking much of the spotlight. Immediate key uncertainties center in labor legislation, the threatened maritime strike, and the nearing verdict of Congress on the future of the OPA. There is no change in our conservatively-selected investment policy.

By A. T. MILLER

THE MARKET'S ACTION always looks bullish when prices are moving up. It will look good on the top day of this bull market, which will not be positively recognizable as such until some weeks after the event, as the averages zig-zag down.

With the reminder, be it noted that the bulls have continued to have the best of the debate since our last previous analysis was written—but the fact that it is a debate perhaps needs emphasis. On the one hand, most of the "thermometers" by which prices are measured made new highs last week. On the other hand, there is a suggestion of laboriousness in the rise. The end of the railroad and soft coal strikes was celebrated with what could be called restrained enthusiasm. And the new highs, at least so far, represent rather modest progress when figured as percentage betterment of previous highs.

To illustrate the latter point, here is the sequence of 1946 highs to date in the Dow-Jones industrial averages: January 16, 203.81; February 2, 206.97; April 18, 208.31; May 29, 212.50. The last figure in the sequence is less than 5% above the first one. The year's net gains so far in The Magazine of Wall Street's broad weekly indexes have been similarly restrained. It is, of course, an open question—which only future market performance can answer—whether these facts have any prophetic significance. Yet they are certainly worth noting. What it amounts to is that the market as a whole, despite further large gains in many "special situations", has not recaptured anything like the general speculative confidence which characterized the great post-war upsurge, by which we mean the phase which began in August of last year and which ran to early February.



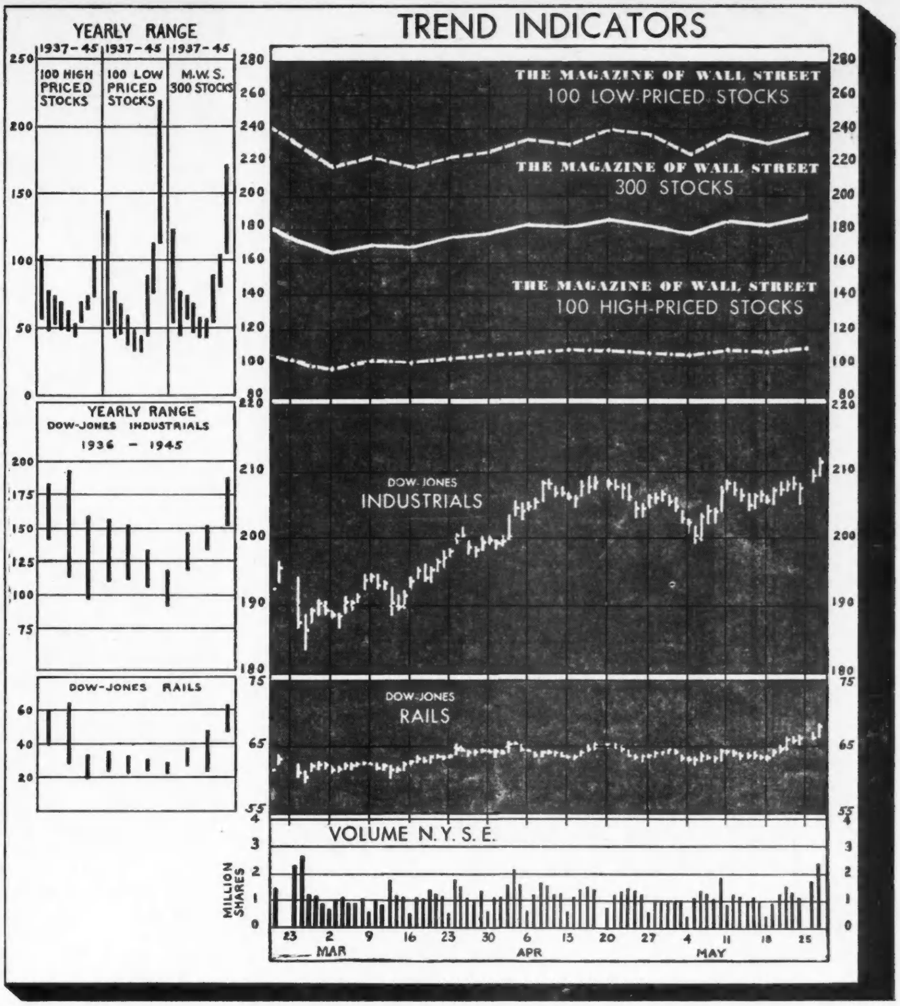
Low-Price Stocks Still Lag

This point is emphasized by the continuing lag in our index of 100 low-price stocks. True, it has had a further recovery; but it still has to better its previous bull-market high. Whether and how it does so will, in our opinion, be a matter of decided trend significance. Assuming that this is still a bull market, this excellent indicator of speculative confidence has been lagging for an unusually long time. Should it continue to trail along behind the market, that basic assumption would be open to increasing question. Of course, it can be said that the market has had to contend with a special crisis in labor relations—bituminous coal and railroads — for some weeks past; and that, considering these circumstances, its action has been good. But a question arises: Has the settlement of these strikes really clarified anything? Or must investors and speculators continue to view the general wage-price-profit prospect with much uncertainty, if not misgiving? We will attempt to deal with these questions further along in this discussion. First

however, some additional comment on the technical indications is desirable.

The margin of support, indicated by the accompanying chart, has widened considerably over the last several weeks. Although that is bullish evidence, it has a negative aspect so far. That is, the improvement is due more to a shrinkage in the supply of stocks for sale than to a dynamic rise in buying demand. The former is at the lowest level in some months, but the latter is still well below previous highs. This is a significantly dubious relationship only if it continues. That is, it takes strong demand to put the market sharply higher, rather than mere absence of much liquidating urge. Such demand may develop. If so, well and good. If not, it is a reasonable surmise that there will be an increase in the supply of stocks for sale.

There is considerable logic behind the picture presented by this chart. New buyers, in the aggregate, seem to be feeling their way, rather than rushing in. They are not entirely "sold" on the intermediate market prospect. On the other hand, potential profit-takers can see some plausible reason for holding off and giving the market a cha[illegible] to show what it can do in the period just ahead. These reasons, most pertinent in short-term thinking are: (1) The Dow industrial average has just made a new high, and the rail average is "flirting" with its previous high, with an upside break-out a hopeful possibility for the near future; (2) the seasonal odds for many years have been strongly in favor of some degree of summer rise; (3) the belief that the labor situation will at least permit a sharp rise in industrial production for the second half-year, and therefore in the earnings of the durable-goods industries which heretofore have been the chief losers from labor troubles.



Although there are no storm signals now visible within the market, we wonder—and this may bear watching—how many people are waiting and hoping for "a good summer bulge" on which to do considerable selling. And we also wonder whether they might not do such selling, perhaps even more readily, if the expected "summer rise" disappoints them.

Changing Leadership

Meanwhile there has been a substantial shift in group leadership. The outstandingly strong groups last week were autos and auto accessories, coppers, farm equipments, radio and furniture; and, in lesser degree, steels and rails. Most of these had been "behind the market" for a long time. The list includes some traditional "late movers". On the other hand, some of the "light-industry" groups long in the vanguard of the bull movement are currently under profit-taking, most notably department store and motion picture stocks, as well as some of the drug-company issues.

More price inflation is certain. How much, we do not know. But earnings and dividends are the most pertinent factors in stock values; and inflation does not necessarily spell boom earnings in the durable-goods industries. They need both sustained high volume and decent profit margins. They can not have either in a start-and-stop-start-and-stop, strike-infested economy. Can we look for something much better than that? We hope so, but we do not know so.

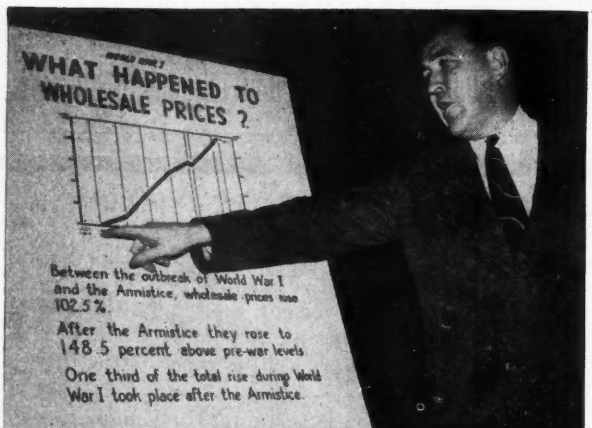
Immediate market uncertainties include the President's action on the Case bill, which is the first partial effort to correct the unbalance of the Wagner Act; the handling of the threatened, Communist-dominated maritime strike; and the final, detailed verdict of Congress on the extension of OPA. That makes the visibility at this moment not too good. Hence, we favor a conservatively selective, middle-road investment course.—Monday, June 3.

Where Do We Stand NOW?

★ ★ ★

By W. C. HANSON

Strongly opposing forces are currently at work producing a varied business pattern.



PROBABLY NEVER BEFORE in this country's history has a more contradictory business situation existed than that prevailing at present. With V-J day already ten months past, the long awaited business boom has failed to materialize to any real degree, or, more accurately stated, has followed a far from satisfactory pattern. At the present time, the potentials for unprecedented prosperity co-exist side by side with the greatest threats to our economic existence.

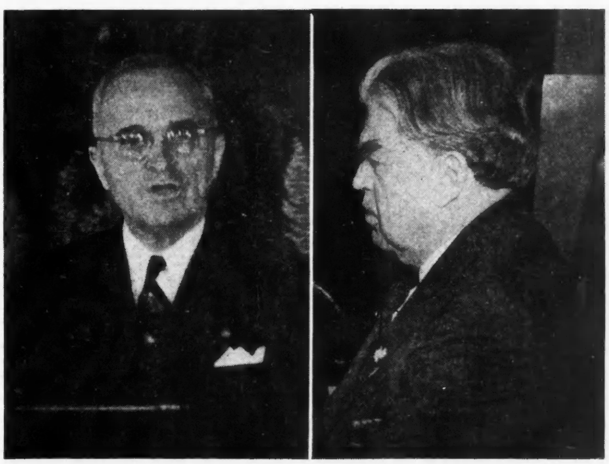
To determine where we stand now—or, more significantly, where we are heading—it is necessary to analyze these opposing forces and anticipate which will gain the ascendancy. But to evaluate the situation realistically, we cannot depend upon the confused counsels, and platitudes emanating from high places, especially those which would assure us that all is well. Rather, the only reliable diagnosis is to probe beneath the mere surface developments and analyze the factors responsible for the present state of affairs.

To a large degree, this can be done by checking some of the vital figures which feel the pulse and take the temperature, so to speak, of the state of our national health. Statistics alone, of course, do not tell the story, but they do serve to point up vitally important trends, and when coupled with other pertinent facts, a meaningful picture can be obtained.

A look at the data in the accompanying table emphasizes the condition already noted, namely, the profound contrast in salient phases of our national economy, and gives some clue as to what lies ahead. The number of items on the favorable side of the ledger is encouraging: the record volume of retail sales, the high level of factory payrolls, and the substantial backlog of savings in the hands of the public, as evidenced by bank deposits and individual ownership of savings bonds.

The high potential of purchasing power in the hands of the public, plus the backlog of both consumer and industrial orders, have long been recognized as the mainspring for a sustained business boom, and unless inhibited by other forces, the expected recovery would readily develop.

But in order to appraise these figures to best advantage, it is well to penetrate a little deeper into the circumstances surrounding them. The current upsurge in retail sales is one of the most encouraging features in the present mixed state of affairs, but it must be recognized as a symptom rather than a cause. The story it tells is most significant, namely, that the public is in a buying mood and, what is most important, that demand is backed by the ability to pay. Retail sales are running about 39% ahead of the corresponding period of last year, with demand continuing unabated. However, a breakdown of sales volume shows that much of the turnover is in consumer non-durable goods, such as food, clothing, textiles, jewelry, novelties, toys, and similar items. Trade in the durable categories comprises a small percentage of retail volume simply because of the scarcity of such products. However, the retail trade pattern will change perceptibly later on when refrigerators, washing machines, automobiles, radios and other durable products become more generally available.



The chaos threatened by irresponsible labor leaders constitutes a major deterrent to industrial recovery.

While on the subject of retail trade, it is well to have another look at "deferred demand" about which so much has been said. As everyone knows, an unprecedented backlog of deferred business has piled up for several years owing to war-created shortages, an increase in the number of family units, and enhanced purchasing power. When translated into actual buying, this could sparkplug a record business boom, but here, too, it is well to weigh the factors judiciously. Economists have been recognizing of late that much of the "backlog" of deferred demand results from duplicate orders, and that a good deal of advance ordering has been done on a strictly contingent basis. Under the circumstances, the investor and business man will do well to look askance at the more extreme estimates on deferred buying, even though a huge backlog undoubtedly exists.

In the final analysis, the demand for goods—and consequently, profits, jobs, and dividends—hinges upon the consuming public's desire and ability to buy. In this respect, statistics, again, are encouraging. Total "liquid" savings, as represented by available cash, savings and savings bonds in the hands of the public are tremendous, as the table indicates. In recent weeks, there has been some tendency on the part of defense bondholders to cash in their holdings. A certain amount of such redemption is to be expected, but if the trend is greatly accelerated, it can develop a dangerous situation. It would not only impede the Treasury's anti-inflationary program but would diminish the reserve of consumer buying power. Present indications are that much of the current retail buying wave is being paid for by bond redemptions.

Still another favorable augury is the high level of factory payrolls. Even though this index is running below the wartime peak—as was to be expected—it is still more than twice the average for 1939. In other words, not only do people have "money in the bank" as evidenced by total savings figures, but they are taking home substantial pay checks. Together, these two items constitute purchasing power. But here a word of caution is needed for those who view the situation too optimistically, as the picture could quickly change, and take a sudden turn for the worse. The factory payroll figure is a very sensitive industrial index, and is quick to reflect changes in employment and the effects of strikes. Hence, in noting the trend indicated in the table, it must be remembered that the latest figures reported do not show the full effects of the more recent industrial disturbances. Payroll figures for the next few months, accordingly, should make a less impressive showing than heretofore, and while in the aggregate business picture it will not be critical, it does nevertheless represent a diminution in total buying power and national income.

Much the same may be said of railroad carloadings and the Federal Reserve Board index of production, both of which will be affected in some measure by labor strife and work stoppages.

It will be noted, therefore, that the adverse influences currently at work center about the labor situ-

ation. The rise in unemployment since V-J day was fully anticipated, but here again even the latest available figures do not adequately reflect the present state of affairs. With hundreds of thousands idle—voluntarily or otherwise—through strikes and plant shutdowns, unemployment reports will likewise make unfavorable reading in the months directly ahead.

Probably the most dramatic way of depicting the effect of work stoppage is the trend of man-days idle as a result of industrial disputes. Based upon latest reports available, the loss in man-hours is about 60 times greater than it was a year ago, and when results for this month are issued some time later, look for a further sensational rise in total man-hours lost.

The data indicated—both favorable and adverse—give some tangible measurement of basic business conditions, but there are also certain intangible influences at work which cannot be reduced to a statistical basis. And although these factors are intangible in nature, they are none the less potent, for they have a far-reaching psychological effect on business men, investors and the general public.

The Foreign Situation

One of the gravest of the "intangible" factors—as we are all too keenly aware—is the foreign situation. Far from being an isolated influence, it impinges directly and acutely upon the American business scene. The prospect of an acute crisis abroad is no longer in the academic stage; it is accepted as a working hypothesis by many business leaders.

Needless to say, most of the anxiety on foreign affairs centers about Soviet Russia and her ultimate objectives in the international sphere. This concern arises not only from the Soviet Union's intransigeance in dealing with even her own allies, but what will be her next moves on the international chessboard. It will be noted that all the trouble areas in which the USSR is involved are strategic in one way or another—Eastern Europe, the Mediterranean, Iran, India, and China. In nearly every instance Russia's maneuverings conflict with Britain's interests, and, to some degree, with our own. Disquieting reports from one reliable source after another about an impending crisis are having a considerable effect upon business management's long range planning.

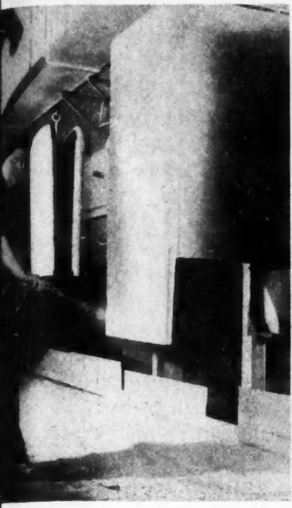
Still another disturbing influence is the Administration's apparent inability—or unwillingness—to follow a realistic policy on the urgent issues of the day. On labor, price control, conscription, and foreign affairs there is little evidence of definite purpose or direction in official policies. The lack of leadershp and clear-cut approach to the problems quite understandably impairs business confidence.

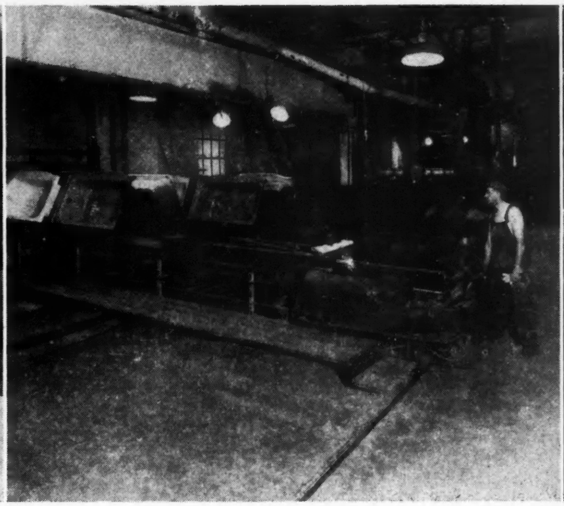
Summing up all the confusing and contradictory elements—both tangible and intangible—to ask where we stand now is to inquire whether the favorable or adverse forces are in the ascendant. On balance, the potentials making for good business are still very great, and if permitted to have free play could generate the greatest boom in our business history. The rub is of course, that they will not have free play—at least not as free as a healthy business environment would require.

As we all realize only too keenly, the chief obstacle to recovery just now is the threat imposed by labor anarchy. Although the coal-railroad strike squeeze may well be the high-water mark of current labor strife, we face a period of intermittent upheavals for the foreseeable future. Both the A F of L and the CIO are launching aggressive membership drives, especially (*Please turn to page* 308)

A Statistical View of Where We Stand

		Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Retail Sales ($ million)	1945	$5,439	$5,113	$6,322	$5,461	$5,922	$6,079	$5,755	$6,086	$6,202	$6,936	$7,039	$8,271
	1946	$6,440	$6,191										
Man-days idle during month as a result of industrial disputes (in thousands)	1945	184	381	775	1,475	2,210	1,850	1,700	1,350	3,675	7,800	6,100	7,500
	1946	19,200	21,500										
Number of unemployed (thousands of persons)	1945	840	880	830	770	730	1,080	950	830	1,650	1,550	1,710	1,950
	1946	2,290	2,650										
Freight Car Loadings (thousands of cars)	1945	3,002	3,050	4,019	3,374	3,453	4,365	3,378	3,240	4,117	3,151	3,207	3,546
	1946	2,884	2,867										
F.R.B. Index of Indusrial Production—Adjusted 1935-39=100	1945	234	236	235	230	225	220	210	186	167	162	168	163
	1946	160	152	168									
Factory Payrolls Avge. Weekly Earnings (U. S. Dept. of Labor)	1945	$47.50	$47.37	$47.40	$47.12	$46.02	$46.32	$45.45	$41.72	$40.87	$40.97	$40.77	$41.40
	1946	$41.27	$47.37										
Factory Payroll Index, 1939=100	1945	345.6	344.8	341.7	333.3	318.7	314.6	298.7	267.3	224.2	222.9	222.9	226.2
	1946	229.1	210.6										
Total Deposits Adjusted and Currency Outside aBnks ($ billion)	1945	$151.2	$150.8	$150.6	$150.9	$152.6	$162.8	$163.5	$163.4	$162.8	$163.8	$168.1	$175.0
	1946	$176.4	$176.9	$173.4									
Individual's Ownership of U. S. Securities ($ million)	1945	$52.8	$53.1	$53.6	$53.7	$54.6	$58.5	$59.7	$59.8	$59.5	$59.3	$62.0	$63.6
	1945	$63.7	$63.7										





Where Diversification *Will Spur* Corporate Earnings

By H. S. COFFIN

ALERT MANAGEMENTS in many industries are continuing the trend towards diversification of output. Motivation for such policies varies so widely, and potentials for stabilizing or swelling profits differ so much, that study of these broadened activities offers much of interest to the investor.

For months past, experienced executives have been eyeing the tidal accumulation of deferred demand not only for their own regular products but for those in related or wholly dissimilar fields as well. With customer purchasing power at record levels for long-denied goods of nearly every description, the lure of big sales in all directions has stimulated planning for its exploitation, not to mention potential lowerings of costs through over-all volume expansion. Hence many a concern is gearing its output with a broadly expanded list of offerings native to its prewar experience or wandering afield to compete in totally strange markets. All in all, business literally is spilling over with determination to go while the going is good; while the process may result in numerous eventual disappointments, in many cases permanent benefits are likely to follow.

With the current upsurge in wage and material costs, along with hampering price restrictions, seriously threatening profit potentials for some time to come, main hope of adequate relief will rest in volume expansion to absorb rigid overhead and sales expenses. To achieve this goal by production of new items or new designs certain to find a measure of popular acceptance in a sellers market has already proved to be an irresistible magnet for concerns in every field. And as a further spur to the trend, the urge to utilize facilities over expanded in wartime, or the availability of record breaking capital resources with which to start additional activities, have combined to smooth the way for product diversification on a broad scale. Quite naturally, therefore, big business is on the way to becoming bigger, while the smaller fry are equally prepared to broaden out in a more modest manner, in both instances armed with courage, or perhaps folly, in treading upon the toes of competitors more strongly established in trade circles than themselves.

Upon managerial acumen, technical skill and long term sales ability, accordingly, will many of the new activities under discussion prove profitable or fatal in the long run. Where desperation to gain volume at any risk during the period immediately following the current chaotic conditions has been the main incentive for diversification in output, inevitable and terrific competition when supply meets demand may speedily present a glum problem for many concerns striving to move their products into consumer's hands. When prices begin to slip under the weight of over-supply, production schedules here and there will have to contract abruptly unless foreign markets can absorb the unwanted domestic output. Diversification based upon mere optimism or without the requisite know-how of production or distribution is likely to prove a boomerang when it returns to smother profit potentials of many a concern.

On the other hand, a great many strong concerns

with experienced managements have benefitted extensively from diversification in the past, gaining long term advantages which have not only swelled their earnings but stabilized them as well during cyclical swings in economic activity. For example, most of the makers of automobiles and their parts long ago discovered that by devoting a portion of their efforts to production of other kinds of consumer durables they could sustain volume in depression years to at least a life saving level, while in better times the diversified output swelled sales and earnings substantially. As outstanding examples in the automotive industry, take General Motors and Chrysler, the one now prepared to sell quantities of diesel engines, household appliances and air-conditioning equipment, while the latter is supplementing sales of automobiles by manufacture of marine and industrial engines, plus air-conditioning items. And more than a decade ago both Borg Warner and Briggs Manufacturing Co. strayed off the beaten path to make household appliances, heating and refrigerating units, or kitchen and plumbing equipment. Past experience has shown that profit margins on most of the foregoing durables are generally satisfactory; established sales outlets both here and abroad promise to swell volume for an extended period when the economic skies once clear. By spreading overhead over a broader range of production, concerns such as this can make strides in holding down costs on their main automotive output.

On an appended table we have listed a number of strong concerns, for the most part facing a sharp shrinkage in sales compared with peak wartime volume but likely to benefit in the medium or longer term through diversification of output. Almost without exception these concerns have a distinct advantage over certain other competitors in the value of their reputation and their firmly established trade connections. Already retailers are reporting a reluctance on the part of buyers to purchase presumably excellent quality and well priced goods where the makers are not too well known, or are considered as newcomers in a field, preferring to wait for old time favorites. Quite clearly, it is going to be one thing to manufacture acceptable goods and another to merchandise them in satisfactory volume even while consumer demand continues to be insatiable. The concerns selected, therefore, are not likely to experience a haphazard distribution of their new lines, and the character of the goods they have chosen to make generally are such as with mass production can create reasonable profit factors.

Admiral Corporation's advent into new manufacturing fields presents an interesting study because of the manner in which its move was made. Growth of this concern exclusively in the radio industry during the prewar decade was quite impressive and during the period of hostilities its volume soared to more than triple former proportions. Scanning of postwar conditions as early as 1944 led it to acquire the business of Stewart-Warner in the fields of electric heat and refrigeration, along with home freezers. While Admiral will continue to push its sales of radios to the limit and its new lines are quite different, the company's know-how in the electrical field and its dealer set up combine to brighten up its prospects for success. With deferred demand for radios likely to become satisfied at a relatively early date and with tremendous competition in sight among refrigerator makers, sale of home freezers and electric ranges may prove to be a highly stabilizing factor in this concern's future operations.

The precipitous decline in production endured by all manufacturers of aircraft at the war's end created serious problems for them, indeed more than in almost any other in- (*Please turn to page* 308)

Representative Companies Entering New Fields

	Approximate Operating Margin*	Earnings Per Common Share — First Quarter 1946	— First Quarter 1945	1945	1944	1943	Dividends 1946 to date	Dividends 1945	1945-46 Price Range	Recent Price
Admiral Corp	7.1%	Not Available		$.79	$.88	$.57	$.12½	$.12½	21¾-10¼	$15
Aviation Corp.	15.0	Not Available		.99	.54	.46	.10	.20	14⅜- 5¼	11
Beech Aircraft	11.1	def.39(a)	Not avail.	9.30	5.33	5.54	Nil	1.00	30⅞- 9⅝	26
Borg-Warner Corp.	14.3	.13	.78	3.83	3.42	3.36	.80	1.60	60⅛-36½	60
Electric Boat	9.4	Not Available		3.19	2.75	2.48	.75	1.50	35¾-14	33
Firestone Tire & R.	8.6	Not Available		7.42	7.13	6.40	1.00	2.50	83½-53½	75
General Mills	5.6	Not Available		2.69	2.23	2.13	75	1.37½	52¾-43	46
General Tire & R.	.7	Not Available		2.20	3.62	2.99	.50	1.00	59¼-26	57
Glidden	6.2	2.13(b)	1.04(b)	2.13	2.02	1.87	1.20	1.20	52 -25¼	52
Goodyear Tire & R.	8.7	Not Available		5.87	5.90	5.68	1.25	2.00	77 -48	72
Hercules Powder	16.3	.62	.50	1.68	1.63	1.92	.25	1.25	72¼-64	66
LeTourneau, R. G.	5.7	Not Available		2.48	4.51	4.58	.50	1.00	50 -28½	45
Minn.-Honeywell Reg.	14.1	.45	.64	2.48	2.36	2.15	.50	1.25	68¼-42¼	64
Servel	2.7	def.49(c)	.24(c)	.72	.96	1.05	Nil	1.00	24⅝-17½	20
Westinghouse Electric	7.3	Not Available		2.03	1.94	1.67	.50	1.00	39¾-31⅛	35
Yale & Towne	12.5	def1.53	.59	3.30	2.99	3.00	.45	1.00	61⅜-32¾	60

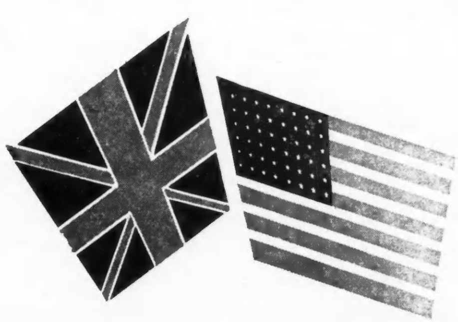
* Based on latest available reports. def—deficit.
(a) For 6 months ended March 31. (b) For 6 months ended April 30. (c) For 3 months ended January 31.

THE BRITISH *Loan*

By V. L. HOROTH

—What It Means to American Business

THIS PUBLICATION HAS ALWAYS maintained that the threat of postwar economic collapse and subsequent chaos could be prevented by expanding and liberalizing international trade as the best way of securing a higher standard of living for everybody. But this publication has also believed that peace and worldwide prosperity cannot be attained by merely indulging in hopes. Specific concrete steps are necessary, and no better beginning can be made in the restoration of a sound and fair basis for world trade than by securing the effective cooperation of Great Britain, a country whose views on the postwar world parallel broadly our own. However, British cooperation in the restoration of world trade, free of discriminations of all sorts, cannot be obtained without helping Great Britain with her postwar transition problems, so that she may feel free to abandon extensive trade and currency restrictions, adopted as a measure of self-preservation during the war. These have been the underlying considerations for the extension to Great Britain of a line of credit for $3¾ billion, the discussion of which in Congress is now in the final stage.



Basically then, the loan to Great Britain is the recognition that our economic problems cannot be isolated from those of the rest of the world. As Mr. M. S. Eccles, chairman of the Board of Governors of the Federal Reserve System put it, war left Britain in an anemic state and the

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loan is a blood transfusion to help her regain international economic health. The credit is more like a draft on a blood bank. It is a key to postwar economic policies, and without it, the International Bank, the International Fund and the proposed International Trade Organization can hardly be expected to fulfill the hopes placed in them. In fact, as one Washington correspondent expressed it somewhat ironically, "the failure to agree on the loan may result in the Bretton Woods Institutions going down in history as another interesting attempt at redeeming capitalist finance from the snares of economic nationalism into which the world lapsed between the world wars."

Why is the cooperation of Great Britain so essential for the development of world trade and for the elimination of trade restrictions and discriminations? The answer is simple. Great Britain is still the world premier trading country. This is how Assistant Secretary of State, William Clayton, expressed it a few months ago in a speech before the National Farm Institute:

"The British Empire accounts for one-third of the international trade of the world. Due to the elimination of Germany and Japan in the world market, it is more than likely that three-fourths of the international trade of the world will, in the next few years, be transacted in dollars and pound sterling. Under these circumstances, Britain's partnership with us in putting world trade on the right track and keeping it there is of the highest importance. There is no other country whose support is so essential for the success of our world-trade program."

In the years prior to the Second World War, Great Britain was the main source of international earning power. With only 2 per cent of the world's population, she purchased no less than 21 per cent of the exports of the rest of the world. Being the world's greatest single importer of food—only 7 per cent of the workers in Great Britain used to be employed on the land—she played a major role in the economy of great areas of the earth surface which otherwise would probably had never been developed.

How important Great Britain was as a market for our merchandise will be appreciated after an examination of the two tables accompanying this article. During the twenty-one years from 1919 to 1939, Great Britain took on an average some $800 million worth of our goods annually or about 19 per cent of our total exports. Our exports to the British Empire in the same period averaged about $1,640 million a year or about 41 per cent of the total. The exchange of goods between the United States and the Empire represented the largest trade between any two political units—almost 10 per cent of the annual international trade in the period between the two World Wars.

It is rather significant for the future Anglo-American trade relations that Great Britain has continued to be our largest foreign market despite considerable shifts in the structure of our exports to her. This will be seen from the second table, giving the fifteen most important export items for each of the following years: 1925, 1929, 1932, 1939 and 1942. During the early 'twenties, the bulk of British purchases from us still consisted of such raw materials as cotton, tobacco, petroleum, non-ferrous metals, and wood, or such foodstuffs as wheat, meat products, animal fats, and dairy products. In 1925, raw cotton alone accounted for one-third of our exports to Great Britain, which that year exceeded one billion dollars. The figures for 1932 and 1933 show the effects of the Imperial preference system adopted in Ottawa in 1932. Under that system, which, it must be admitted, was adopted by Great Britain only reluctantly and in the face of growing restrictions and tariffs throughout the world, all imports to Great Britain from non-Empire countries (except the goods previously dutiable or specifically exempted) were made subject to a general 10 per cent ad valorum duty.

The empire preference system affected principally our exports of meats and animal fats and dairy

Shifts in Our Exports to Great Britain

(All figures in millions of dollars)

1925 Commodity	Value	1929 Commodity	Value	1932 Commodity	Value	1939 Commodity	Value	1942 Commodity	Value
Cotton, raw	304	Cotton, raw	160	Cotton, raw	56	Cotton, raw	58	Aircraft	523
Tobacco products	85	Petrol. & prodts.	101	Petrol. & prodts.	38	Petrol. & prodts.	48	Lard, eggs & fats	322
Meat products	83	Tobacco & products	80	Fruits & nuts	36	Indust. machinery	48	Indust. Machinery	268
Petrol. & prodts.	82	Grains & flour	55	Tobacco & products	32	Motor vehicles	46	Firearms	256
Grains & flour	60	Non-ferrous metals	53	Lard, eggs & fats	19	Fruits & nuts	36	Meat products	235
Non-ferrous metals	53	Fruits & nuts	52	Wood & paper	14	Tobacco & products	36	Iron & steel mfrs.	176
Lard, eggs & fats	49	Meat products	42	Meat products	11	Non-ferrous metals	25	Petroleum & products	138
Wood & paper	37	Lard, eggs & fats	42	Leather, skins, etc.	10	Chemicals	22	Vessels & marine eng.	126
Leather, skins, etc.	34	Wood & paper	40	Indust. machinery	9	Wood & paper	22	Mot. veh. incl. tanks	85
Motor vehicles	24	Naval stores, etc.	33	Non-ferrous metals	8	Meat products	18	Non-ferrous metals	63
Indust. machinery	19	Indust. machinery	28	Grains & flour	8	Lard, eggs & fat	18	Cotton, raw	62
Iron & steel mfrs.	17	Motor vehicles	28	Naval stores, etc.	7	Iron & steel mfrs.	18	Indust. chemicals	61
Naval stores, etc.	17	Leather, skins, etc.	26	Indust. chemicals	7	Misc. machinery	13	Tobacco & products	49
Sugar	14	Textiles	19	Motor vehicles	4	Naval stores, etc.	13	Explosives	37
Indust. chemicals	10	Chemicals	18	Misc. machinery	3	Elect. apparatus	11	Wood & paper	33
Misc. exports	145	Misc. exports	64	Misc. exports	20	Misc. exports	67	Misc. exports	75
Total	1,033	Total	841	Total	282	Total	499	Total exports	2,509

products, and of copper, lumber, leather and naval stores. By 1939, all these products represented but a relatively small fraction of our total exports to Great Britain. The exports of cotton and tobacco, once the leading items, were in 1939 no larger than in 1932, the worst year of the depression, when prices were low. Nevertheless, British purchases still amounted to about 10 per cent of our cotton crop and about 15 per cent of our tobacco crop. While the traditional imports from this country were declining, Great Britain had increased her purchases of our manufactures. The exports of industrial machinery, motor vehicles, and industrial chemicals, which in 1929 ranked tenth, eleventh and fifteenth, respectively, advanced by 1939 to third, fourth, and eighth place, respectively. Although one of the most highly specialized nations as far as industrial skills are concerned, Great Britain became on the eve of the Second World War one of our best markets for industrial products, including motor vehicles—the best proof that there is no monopoly on special skills and that all can benefit from international division of labor.

Our Stake in British Recovery

All this is to show that we have, as the world's largest exporting nation, a direct stake in British recovery, for it is easy to forecast that Great Britain will continue to be our largest market for at least the next five years. This is apart from our interest in the restoration of British earning power in regard to other countries. It should not be forgotten that the dollars that we supply to Great Britain and that she may spend for other countries' goods, are bound to turn up elsewhere—in India, Canada, Australia, and Latin America —and to be spent for our goods by some other country.

Moreover, under the terms of the loan, the free convertibility of the pound into dollars is to be restored within a year, unless a later date is agreed upon. This means that at east a part of the huge purchasing power represented by sterling deposits now blocked in London, and equivalent to about $13 billion, will be available for the purchase of American goods.

Perhaps the best way of driving home the tremendous importance of securing Britain's cooperation in re-establishing international trade on a multilateral basis, free of discrimination, is to consider the consequence that Congress's refusal of the loan would be likely to bring about. As Mr. Marriner S. Eccles pictured it in his statement before the Senate Banking and Currency Committee, the following would be likely to happen: " . . . if we refuse the loan, the British would be forced to make a desperate bi dfor economica domination in large areas of the world. They would have to inten-compelled to form an economic bloc of our own, intensify their trade and exchange restrictions, and to resort *to every economic device* to gain advantage in world markets and obtain necessary supplies. This would force a large part of the rest of the world into retaliation along the same lines. As a matter of self-preservation countries would turn increasingly toward state trading and barter. The British people would suffer privations ever greater than in wartime and no one could say whether freedom and democracy could survive such conditions there. Along this road lies further totalitarian development."

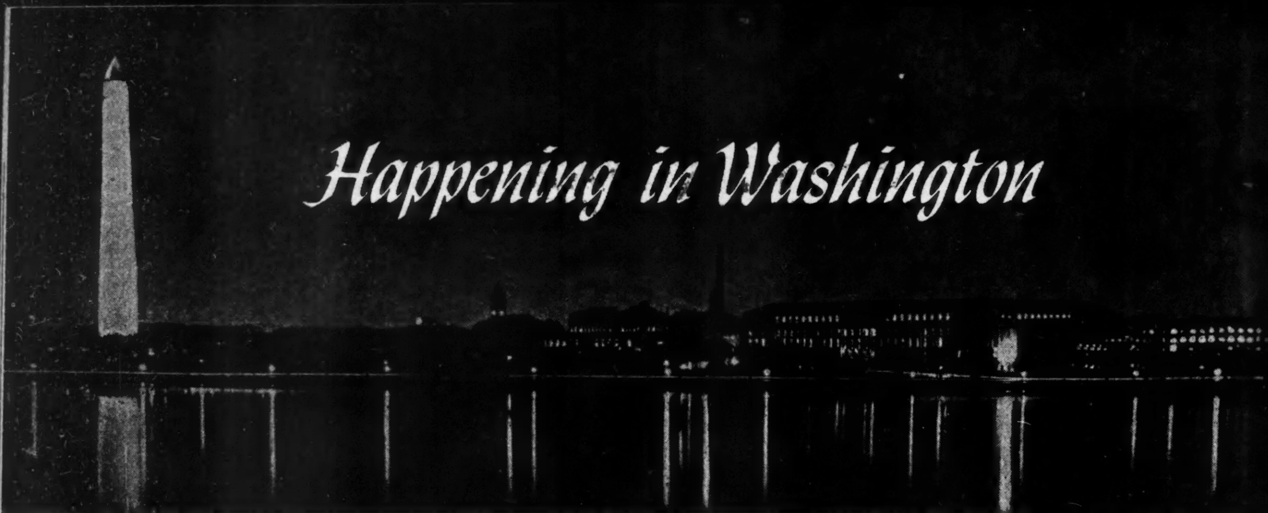
The Secretary of the Treasury, Fred M. Vinson, has not minced words either in his testimony before the Senate Committee. In his opinion, we would be compelled to form aneconomic bloc of our own, including Canada and other countries of the dollar area: "Two rival blocs would mean economic warfare. Probably we would win, but it would be a pyrrhic victory. World trade would be destroyed and all countries would suffer. If England and the United States should drift into such a conflict, it would be a tragedy for all. We would find our trade decreased and our people unemployed. England would find her standard of living deteriorated and her people impoverished. The hope for economic cooperation might be lost forever. The consequences to world prosperity and to world peace would be disastrous."

United States Export Trade With Great Britain and Empire

(Millions of Dollars)

	U. S. Exports to United Kingdom		U. S. Exports to British Empire	
	Value	% of Total	Value	% of Total
1913	591	24	....	....
1914	600	23	....	....
1919	2,279	29	3,344	43
1920	1,825	22	3,225	40
1921	942	21	1,769	40
1922	855	22	1,631	43
1923	882	21	1,771	43
1924	983	21	1,858	41
1925	1,033	21	1,992	41
1926	972	20	2,062	44
1927	840	17	2,021	43
1928	847	17	2,097	42
1929	848	16	2,167	42
1930	678	18	1,588	42
1931	456	19	945	40
1932	288	18	629	40
1933	311	19	621	38
1934	383	18	847	40
1935	433	19	949	42
1936	440	18	1,039	43
1937	534	16	1,348	41
1938	521	17	1,270	42
1939	505	16	1,269	40
1940	1,011	25	1,972	49
1941	1,637(a)	32	3,037(a)	59
1942	2,529(a)	31	4,886(a)	61
1943	4,505(a)	35	7,461(a)	58
1944	5,242(a)	37	8,241(a)	58
1945	2,189(a(	22	4,554(a)	46

(a) Including Lend-Lease shipments.



Happening in Washington

Photo by Cushing

By E. K. T.

COFFEE INDUSTRY is being caught in the switches of diplomacy with government agencies squabbling about controls, subsidies and price ceilings. State Department contends present program is making ill will south of the border. Bowles strongly opposes removal of price ceilings or subsidies as being inflationary. Decision is expected in the next few weeks. State Department will send a representative to Brazil to negotiate a firm commitment for a quantity slightly less than normal requirements, at three cents above present ceiling price. If the deal is made, the ceiling will go up to cover it. Meanwhile Colombians talk of a price advance of five to ten cents, ceilings or not.

WASHINGTON SEES

The Truman plan for emergency strike control may properly be regarded only as insurance against a particular type of economic paralysis, but it "serves notice" on unions. That, perhaps, is its most beneficial aspect.

It cannot be described as an antistrike bill because only those industries and services which have been taken over by the federal government come within its protection. Other enterprises are free targets for any type of compulsion labor organizations can contrive to impose. If it were unlimited in scope it would not have been enthusiastically received by the lawmakers. Whether one considers it mere rhetoric to say the coal and rail stoppages were strikes against the government, it can be accepted that the incidents were strikes against the general public interest, and it was that calamity that the White House and Congress set about to overcome.

Too little emphasis has been placed upon the fact that industry as well as labor are subject to the penalties laid down. Facilities taken over by the government will pay their net profit, if any, to the Treasury of the United States. Employers are held to strict accountability in negotiating bargaining agreements. In fact, the plan is to put industry as well as unions under injunction to keep the economic peace. That is the best defense of what is conceded to be one of the most drastic programs in the history of American labor legislation.

MEAD COMMITTEE investigation of surplus property sales will turn up many irregularities but is not expected to unearth any basic "scandal." Changes in methods effected since the original three-man commission was set up, later to be displaced by a one-man board, and now operating through War Assets Administration resulted in thorough review of practices with each switch. That prevented cultivation of any serious abuse. Administration of orders from Congress has conformed to the pattern laid down. Complaints will be largely against lack of speed rather than willful departures from the statute.

PUBLIC HEALTH BILL, otherwise described as the "socialized" medicine act, is plodding through the legislative mill but its sponsors are becoming worried. Two major sources relied upon for support are withdrawing. Several groups of war veterans have expressed apprehension that such a law would restrict their rights to medical and surgical care in United States Veterans Administration facilities. John L. Lewis' demand for health and welfare taxes and an independent setup for miners has raised an issue which will bob up from time to time in varying forms and the unions are optimistic of eventual success, therefore are less interested in the legislation than formerly.

GOVERNMENT LARGESS in providing funds for education of GI's has educators worried. Official estimates indicate the federal government will spend about one billion dollars during the coming academic year to finance tuition for about 700,000 veterans, one-half that amount going for subsistence. Several institutions are planning tuition increases, which the government will not quibble about but which, the professional educators as distinguished from their business offices believe, may place higher learning beyond the reach of the poor. They fear the government's generosity may have a harmful long-range effect, are working quietly to keep down fees.

AS WE GO TO PRESS

The President's dramatic appearance before a joint session of Congress and his stern demand for severe labor curbs has left Senators and Representatives of both parties all a'dither. Political line-ups have been blown to the winds temporarily by the rail strike, and how they will draw together again will remain uncertain for some time to come.

Current re-grouping of political ranks seems to indicate an alignment of both Republicans and Democrats into so-called Liberal or Conservative coalitions regarless of party istinctions. Confusion is further heightened by attempts of strong Administration adherents like Senator Barkley to back up the President in his insistent demands.

But political expediency carries at lot of weight in the melee, for Republican leaders like Senator Taft are alert to recognize in the emergency a heaven-sent opportunity which may swing the electorate in the fall ballotting in the long prayed for direction. Hence many other senators on the Republican side of the aisle show signs of going easy on too restrictive labor clauses in the measure. This may please angry union leaders.

With both the CIO and the AF of L loud in denunciation of the Presiden's proposals and threatening to get his political scalp, as well as those of all Congressmen who venture to carry out his wishes, one of the most significant political show-downs in history is in the making. Out of the current mess is erupting a wide split in White House circles, too, for many social planners and astute politicians in this group foresee nothing but defeat if the labor vote should turn against them.

But if the reported deluge of supporting public opinions and the almost unanimous tenor of editorial comments is any criterion, Mr. Truman may have more to gain by his courageous action than he stands to lose by alienating his former cronies in labor circles.

Meanwhile, the hectic political maneuvers in the Senate and House to solve the problem on a common sense basis consistent with the emergency involved are most interesting to watch and with every hour that passes some dramatic decisions may be reached despite all opposing efforts.

Quick and overwhelming approval by the House of the President's emergency proposals is not matched by similar headlong action by the more cautious Senate. Filibustering, attempts to delay matters by referring the subject to some notoriously dissident committee, and genuine reluctance to assign such broad powers to any Chief executive point to some probable toning down of the measure.

The Senate has definitely eliminated the clause which would permit drafting of strikers in Government seized plants should they refuse to return to work upon Presidential request. And Senator Murray's suggestion that the whole measure be scrapped if labor leaders will agree to a six months truce for all strikes has some willing listeners.

But many cool thinkers have been put on the leart in envisaging a law which, despite its alleged temporary character, would make the President in fact a dictator over the entire economic life of the nation. Fear is that one emergency after another might evolve from such power in one individual, giving an excuse for permanent regi-

mentation and a wholly planned economy. Many members of Congress of course will arise to point this danger out, and in no uncertain terms.

Fact is that aside from the domestic furor over the reconversion debacle and the mounting tide of strikes, foreign appraisal of our much touted form of Democracy is already showing signs of cynicism. The Russians are playing up our labor upheaval for all its worth. This both as to foreign affairs and to problems at home the Administration has been thrust upon an uncomfortably hot spot, to say the least, and its permanent status in the political arena has been considerably weakened.

In passing the controversial Case anti-strike bill by a vote of 320 to 106, as amended by the Senate, and sending it to the White House for approval, the House of Representatives has shown its traditional speed in expressing the popular view that labor leaders have overplayed their hands under Administration coddling and are due to be set back on their heels.

Now arises the problem of whether or not the President will or will not endorse the measure with his signature. Even as we go to press, this vital point will have to be decided. A veto, of course, would be an appeasing gesture towards labor which might mitigate his stand for an equally severe emergency measure.

But if he refuses to accept the Congressional will as now expressed, his opponents may succeed in defeating his hot-headed demands for personal control over all wages and prices until six months after the official termination of hostilities. This will be a tough nut for him to crack, and there is always a chance that Congress might make him lose face by passing the measure over his head.

Talk of a possible new party to arise out of the present crisis, to be headed by a die-hard proponent of labor like Henry W. Wallace, or others of his ilk are current, but in view of past experience along these lines, such a move would not be likely to gain much headway in the political scene.

Chances that the coming fall election of all Representatives and one third of the Senate will be attended by a political frenzy exceding even that of any recent presidential election are becoming more than ever clearly indicated. Upon the outcome is certin to depend the near term destiny of our Democracy as established to date.

If Mr. Truman could succeed in winning Congressional approval of an Act vesting him with extraordinary "temporary" powers in the now obviously dangerous reconversion period, and at the same time force deferment of long-term legislation affecting labor it might be shrewd political strategy on his part.

Such a move, if successful, naturally would leave the major question open for a new Congress to decide after the coming fall elections and temper down the current widespread criticisms of what the Administration has or has not done in the interim, at the same time strengthening the trend towards State Control.

But both Vongress and the public are fully aware that a longe range management-labor policy should have been worked out months and years ago, and feeling is that Mr. Truman's suggestion for a further deep study of the subject by a joint Congressional Committee may have back of it an objective to block all labor curbs.

Clearly indicated temper of both the Senate and the House in passing the Case Bill by an overwhelming majority, and the conviction of members that public opinion strongly supports their action, moreover, points to insistence that veto or no veto, immediate action of some sort will be forthcoming.

Re-appraisal of . . . .

RAIL SECURITIES

By

GEORGE W.

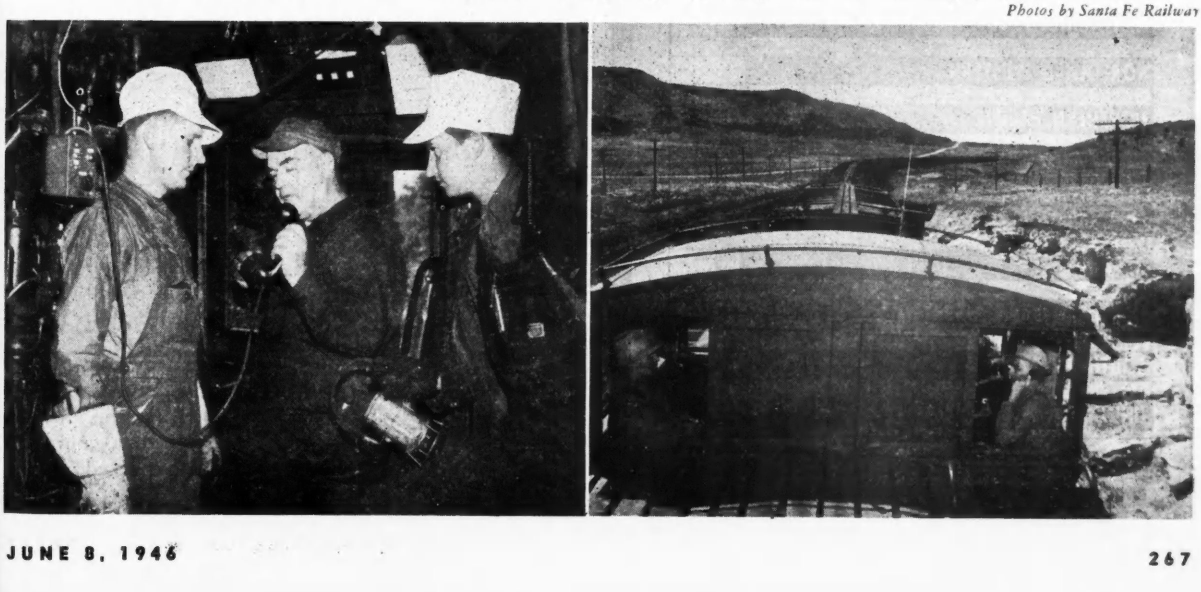
MATHIS

WITHIN THE PAST two months, one of the largest statistical services has recommended the sale of all railroad securities, both stocks and bonds. Doubtless this advice has found ready response in certain financial quarters since there has recently been considerable liquidation of railroad holdings in recognition of the predominantly near term bearish factors. For not only is the railroad industry faced with problems of adjusting operating expenses to declining gross revenues of at least $2 billion (i.e. $7 billion estimated for 1946 versus almost $9 billion in 1945) but additionally wage increases of some $600 million have been agreed upon by the industry. These wage increases have been made retroactive to January 1st, 1946. However, in contrast to the steel industry which was virtually given immediate price relief as a means of acceding to an 18½% increase in wages, the railroad industry has thus far been unable to obtain any relief in the form of increased freight rates.

True, restoration of the 4.7% increase authorized

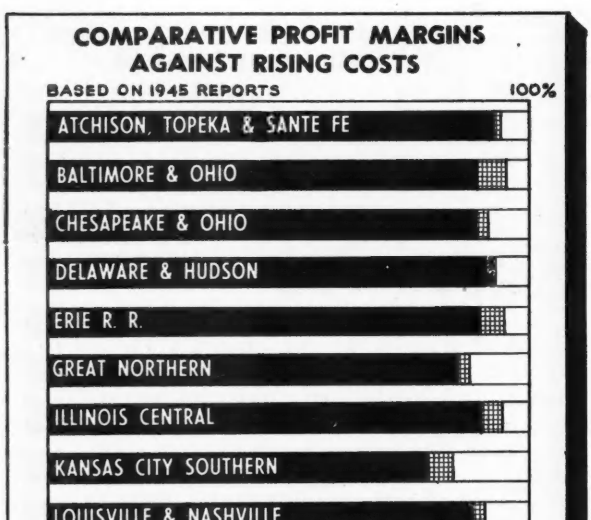
The nation's railroads are meeting the challenge of the future by effecting operating economies and a higher level of efficiency. The industry now faces the problem of adjusting operating costs to declining postwar revenues.

Photos by Santa Fe Railway



under Ex Parte 148 is a near term possibility. If granted however, such an increase is at best a stop gap. Further rate increases up to the 25% requested by the industry are essential to maintain its financial health, but such increases doubtless will be delayed until long drawn out hearings are completed. In passing, one should note that even were the full 25% freight rate increase to be granted, as requested, the actual overall increase would be but 16 to 18%, since all rates are not to be raised equally. Rates on bituminous coal, to name but one commodity, are to be increased only 4¾% in the Eastern District.

The minimum freight rate increase we envisage is 15%, which would be equivalent to a net increase of approximately 12% on an overall basis. This we think probable inasmuch as the I.C.C. now has a greater vested interest than ever before in maintaining railroad solvency. In fact the Commission has had the exclusive responsibility of reorganizing numerous bankrupt carriers. Many of these reorganizations have already been consummated. Others are waiting on legal developments, such as the probable passage of the Wheeler Bill. However, such rate relief as is finally afforded is apt to come too late to alter the earnings picture for the first six to nine months of this year. First half results without doubt will be drab indeed, making dreary reading for investors in railroad securities. In fact, should the current wave of strikes continue, it is even possible that the unimpressive earnings picture may extend well beyond mid-year.



In the face of sizeable earnings contraction for the first six months or more of this year, the industry is indeed fortunate in having the cushioning effect of the carryback provisions of the 1942 Revenue Act. This Act was passed in part to ensure relative stability of earning power of all industry during the inevitable trying period of reconversion. Congress was anxious to avoid a repetition of the disastrous experience of most industries following World War 1 when even some of our strongest industrial companies found themselves in straightened circumstances. This was particularly true in 1920 and 1921 which was a depression period characterized by sharp declines of commodity prices.

It was provided in the 1942 Revenue Act that all companies, industrial, and utility as well as rail whose war time earnings have been almost completely siphoned by prohibitive war time taxes, should have, in the event that earnings should suffer a substantial decline, a carryback tax credit to the extent of a percentage of taxes previously paid.

The extent of possible tax recoveries for railroads, may be envisaged when it is realized that excess profits tax exemption of all Class 1 carriers during the war period was approximately $900 million. Accordingly, if the industry in 1946 does no better than earn its fixed and contingent charges —a much more conservative forecast than seems logical to project at this writing — a carryback credit of between $300 and $400 million will then be available, a sum substantially greater than earnings reported after charges in the 30s, although lower than those of the war period which were as follows:

TABLE I

NET EARNINGS AFTER FIXED CHARGES
CLASS 1 ROADS

1941	$499,765,000
1942	901,712,000
1943	873,478,000
1944	667,188,000
1945	447,385,000

It is evident from the foregoing how important the carryback provisions of the 1942 Revenue Act are to the railroad industry. In all likelihood, as a consequence of tax credits as projected, a complete metamorphosis of earnings can be expected in the latter part of the year. Individual railroad com-

panies are not likely to compute their final audit until December, and marketwise, the effect of these probable credits may well be delayed until after publication of final December results—due late in February of next year — since markets today tend to follow rather than precede news.

However important tax carryback credits may be to the railroad investor, the case for a constructive attitude towards railroad securities does not rest solely on tax advantages. Otherwise we might even go so far as to agree with the financial service previously quoted as favoring sale of all rail securities. It must be emphasized at the outset that fundamentally, the industry has improved its financial position to an almost incredible degree. Of almost equal importance, the industry has improved its position vis-a-vis its important competitors, namely trucks and coastwise ships.

Table II
% Reduction in Debt and Interest Charges from Peak since 1928
Thirteen Class 1 Carriers

	Total Debt Peak Since 1928 (000's)	Total Debt Present (Est.) (000's)	% Red.	Fixed Charges Peak Since 1928 (000's)	Fixed Charges Present (Est.) (000's)	% Red.
Atch. Topeka & S F.	$334,522.	$230,575.	31.1%	$13,443.	$8,600.(1)	36.0%
Atlantic Coast Line	157,270.	102,555.	34.8	8,132.	4,656.	42.8
Baltimore & Ohio	675,702.	573,293.	15.2	34,887.	26,718.(2)	23.4
Chi. Burl. & Quincy	233,764.	192.093.	17.8	9,763.	6,250.	36.0
Great Northern	355,560.	240,897.	32.3	19,885.	7,561.	62.0
Illinois Central	379,062.	256,818.	32.3	18,828.	12,000.	36.3
Louisville & Nash.	238,901.	168,743.	29.4	11,604.	6,300.	45.7
New York Central	1,108,800.	855.406.	22.9	62,800.	43,000.	31.5
N. Y., Chi. & St. L.	160,192.	115,360.	28.0	7,979.	3,458.	56.7
Northern Pacific	330,216.	273,684.	17.1	15,100.	10,467.	30.7
Pere Marquette	77,273.	55,806.	27.8	3,847.	1,806.	53.1
Reading	137,094.	98,971.	27.8	9,637.	5,100.	47.1
Southern Pacific	831,733.	529,048.	36.4	32,447.	18,900.	41.8

1. Including Contingent Interest of $2,048,000 on $51.2 million Adjustment 4s.
2. Including $5.13 million of secured contingent interest and $4.02 million of unsecured contingent interest in accordance with Chandler Act Plan of Reorganization.

Let us first consider the financial record. Total debt of all Class 1 carriers has, in the past decade or more, been reduced from $11.8 billion to approximately $8.7 billion. Of this latter sum, $7.5 billion of debt is fixed, and $1.2 billion contingent. In the same period fixed charges have been reduced from $714 million to approximately $480 million; continuation of existing monetary ease should make possible further refundings in 1946 so that year end fixed charges may reach a level as low as $460 million. Improvement in working capital has kept pace with improvement in debt retirement and reduction of fixed charges. Net working capital has risen from an average of $500 million in the 20s, and $200 million in the 30s, to an all time record high of $2.2 billion at the 1945 year end.

The improvement recorded above is that of the industry as a whole. In order to portray the improvement effected by individual carriers, we have prepared a table which furnishes statistics of the reduction of funded debt and savings effected in fixed charges for a representative group of larger railroads.

The overall improvement of all Class 1 carriers is not of necessity limited to the financial gains above portrayed. Of almost equal importance is the improvement of the railroad's competitive status, a by-product of the recent conflict. Up to the outbreak of the war in 1941, chief competitors of the railroads were twofold:—trucks and coast-wise ships. Minor competitors were limited to barge lines and airplanes. Adverse influence of truckers were two fold; 1. they were able to obtain the bulk of all L C L traffic up to 150 miles with a reasonable amount of such traffic beyond this range, and secondly, 2. this competition resulted in a pressure being exerted on rates, revenue per ton mile of all Class 1 carriers declining from 1.081c in (*Please turn to page* 302)

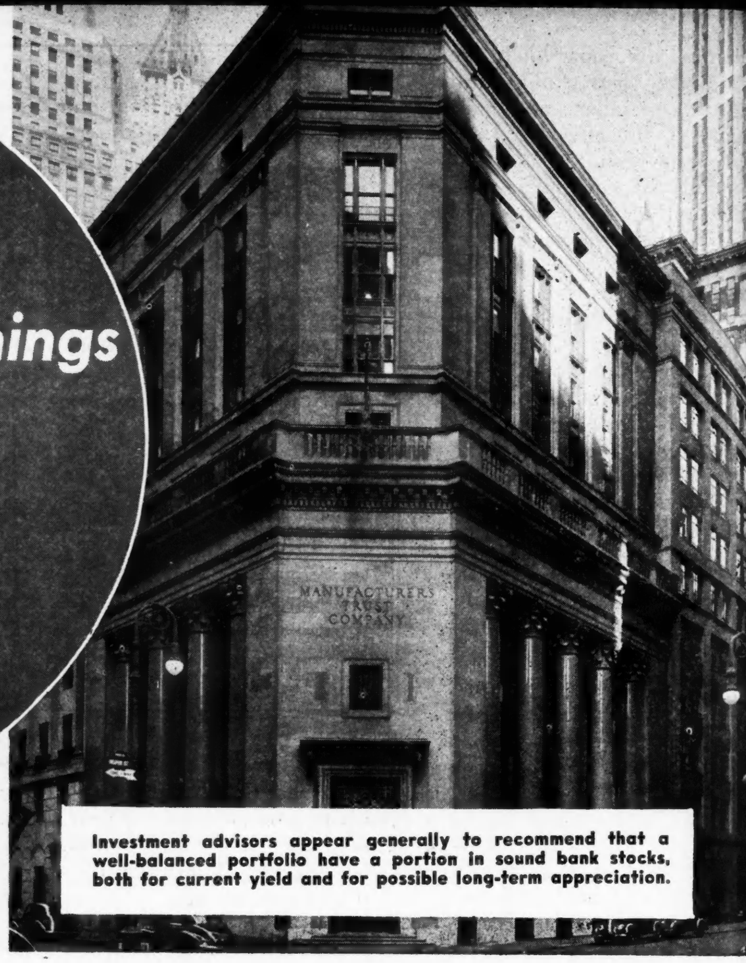
Table III

	Recent Price	Current Yield	Current Fixed & Contingent Charges (Mill.)	Fixed Charge Coverage 1944	Fixed Charge Coverage 1945	*Postwar Estimate (Times Covered)
Baltimore & Ohio 5s/95	86¼	5.80%	26.655	1.81	1.60	1.62
C. C. C. & St. Louis ref. 4½s/77	92½	4.86	43.000	1.91	1.59	1.82
Ill. Central Jt. 5s/63	102¼	4.89	12.000	2.51	2.10	2.13
Lehigh Valley 1st Ext. 4½s/50	92¼	4.88	7.200	1.11	Def.	1.15
N. Y. Central Consol. 4s/98	90	4.44	43.000	1.91	1.59	1.82
Morris & Essex 1st 3½s/2000	67⅞	5.16	5.250	1.36	0.59	1.60
N. Y. Lack. & Wes. 1st & Ref. 4s/73	92¾	4.31	5.250	1.36	0.59	1.60
Income Bonds						
Baltimore & Ohio Conv. 4½s/60	71¼	6.31	26.655	1.81	1.60	1.62
Chicago & East. Ill. 5s/97	68	7.35	1.300	2.48	2.08	2.19
Chic. Mil. St. Paul Series B 4½s/2044	86½	5.20	9.000	3.83	3.20	2.71
Chic. & North Western 4½s/99	91	4.94	6.800	3.58	3.22	2.81
Erie 4½s/2015	93⅞	4.79	8.000	2.24	1.83	2.09

*For first 12 months of full production.

Trends To Higher Earnings FOR BANKS

By J. C. CLIFFORD



Investment advisors appear generally to recommend that a well-balanced portfolio have a portion in sound bank stocks, both for current yield and for possible long-term appreciation.

During the past few years there has been a steady improvement in bank earnings. Figures now available covering all member banks in 1945 show an average net return on invested capital of 11 per cent, as against 6.2 in 1940. In a comprehensive article on bank earnings in the Federal Reserve Bulletin the following table was presented showing the favorable comparison of bank earnings with those of leading corporations in other major divisions of business.

Behind this marked improvement are a number of factors. First is the great expansion that has taken place in the banking system during the past six years. This was a direct result of the tremendous rise in public debt and the accompanying use of bank credit, despite the Treasury objective of placing the largest possible portion of new debt in the hands of individuals, insurance companies, savings banks, and investors other than commercial banks. Although banks were not permitted to subscribe directly to the new Treasury issues, except in limited amounts for investment of time deposits, additional bank credit was created by the bank purchases of outstanding securities from other investors who shifted into the new issues, and by bank loans to finance security purchases by others.

Over the entire war period, the combined expansion in commercial bank and Federal Reserve Bank credit amounted to about 40% of the net increase in public debt. Even before the outbreak of war, however, bank credit was expanding, although at a slower rate, due to federal deficits incurred in every year since 1930.

This growth in size of banks may be measured in various ways, such as total assets, loans and investments, deposits, etc. Perhaps the simplest measure is comparing the size of the country's larger individual banks now with ten years ago. As shown in the accompanying table, there are now 17 banks with total assets over $1 billion. (Also 12 insurance companies, 6 railroads, 5 industrials and 2 public utilities.) Ten years ago there were only 6 banks in this class. Total assets of these 17 banks increased between 1935 and 1945 from $16,574 million to $44,172 million, or by 166 per cent. These banks alone represented exactly 25% of the total assets at

Bank Profits Compared with Profits of Other Lines of Business

(Percentage ratio of annual net profits to invested capital)

Business	1940	1941	1942	1943	1944	1945
Banking						
All member banks	6.2	6.7	6.4	8.8	9.7	11.0
Manufacturing	10.5	12.3	9.9	9.6	9.8	9.1
Mining and quarrying	6.3	6.8	7.4	7.2	7.6	7.6
Trade	10.4	11.0	9.9	10.1	10.2	10.9
Transportation	1.8	4.6	8.2	7.7	5.8	3.8
Public utilities	7.1	6.8	6.2	6.6	6.5	6.7
Service and construction	7.0	9.4	11.1	12.5	11.7	11.6
Finance	8.5	7.2	6.9	8.0	7.7	7.6
All groups	7.8	8.9	8.5	8.6	8.2	7.6

Source: Federal Reserve Bulletin and National City Bank Letter.

the year-end of the 14,589 banks in the United States.

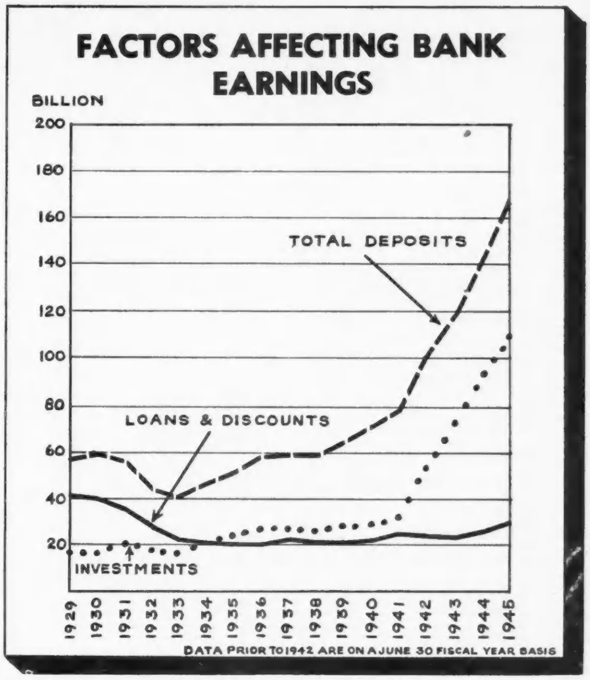
Expansion in bank assets his taken place chiefly in holdings of government securities, with loans up only slightly. The rise in governments in bank portfolios has offset the steady decline in interest rates and bond yields. Average yield on the commercial bank portfolios of government securities, a large portion of which is in short-term and low-yield issues, is less than 1% net after taxes, but they hold a total of $102 billion of such obligations.

Moreover, the banks have had the advantage of riding a bull market in government bonds and of obtaining, in addition to interest income, substantial profits on the sale of bonds purchased at lower prices. Such capital gains are not treated uniformly by all banks in their accounting, and while not usually put into current earnings but into reserves, they often aid earnings indirectly.

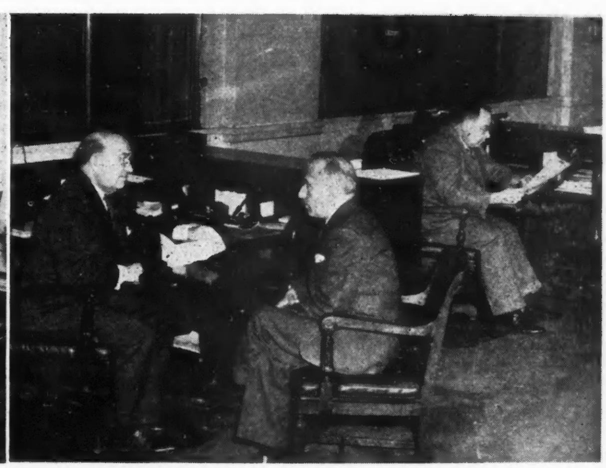
As to how long bank deposits and resources will remain at their present inflated level, one has only to answer the question of how soon the federal budget will be balanced with a substantial margin for amortization of public debt; in other words, when will the chief influence that created the additional bank credit be reversed? (Looking at the picture broadly, the debt retirement thus far in 1946 from the unneeded Treasury balances or more than $25 billion built up in the Victory Loan can be disregarded, since this credit was never put into active use and thus was only a "potential" factor in the increased total money supply.) Bank earnings on government security holdings should continue relatively good for years to come.

Another source of improved earnings is the movement of many banks into new fields of credit, in competition with other banks, with old-established instalment finance companies, with insurance and other financial institutions, and even with individuals who have accumulated cash and liquid resources that they are willing to place in mortgage or business loans.

A contrast between the keen competition prevailing in the field of credit today with that of a few years ago was drawn by Clinton B. Axford, Editor of the American Banker, in a recent address before the New York Society of Security Analysts. Then the banker sat with his assets, and on loan applications either said "No," or said "Yes" on his own terms. Now the banker has to meet his customer 50% or 90% of the way, and the borrower merely mails in the application with his own terms, which the banker can accept promptly or let some competitor take the business.



Commercial banks now entering the small loan field and the financing of instalment sales of automobiles, household appliances, etc., usually have charges, on a discount basis, of 3 to 5%, giving an effective rate on the average balance outstanding



Entry into new financial fields, coupled with a more aggressive policy of merchandising their services, is broadening the base of bank earning power. Together with a long term rise in earnings assets, this enables a higher return on capital.

of 6 to 10%. This is much lower than the rates formerly charged by the regular finance companies, which in most cases were around 18% on outstanding balances, and still lower than the personal loan companies which charged 2½% per month or 30% per year.* Whether or not the banks, entering the new field in stiff competition, and charging a much lower scale of rates, can make money over a period of time will probably be determined largely by their ability to build up a volume of such loans sufficient to carry their expenses for investigation, bookkeeping, collections, unavoidable losses, and overhead.

The practice of commercial banks making "term loans," payable over a period of two to ten years, was started cautiously by a few banks before the war. It was greatly accelerated during the war when large numbers of V- and V-T loans were made to companies engaged in war work, and since the war-end there has been a further liberalizing of bank policies in granting these long-term loans, or lines of credit. These new credit policies have invited some criticism because of the long commitment and the low rates, but there is constant pressure of idle and low-yielding money for better returns, and the experience of term loans has been favorable at least to date.

Recent experience in practically all types of loans has, for that matter, been favorable—another factor that has inflated, in a sense, currently reported bank earnings. When the tremendous wartime demand called into use almost all of the country's industrial capacity, including "marginal" producers who usually operated at a deficit except in boom times, the result was that bank losses on loans dropped sharply, while collections on old frozen loans (charged off up to twenty-five years before) jumped sharply. Bankers realize that because of these factors, as well as government bond profits, currently reported earnings tend to overstate the real rate of return.

Another factor in future bank earnings is the upward trend in salaries of bank employes, in order to meet higher living costs and to raise the lower-paid groups to a level more nearly comparable with that in other lines of business where substantial increases have taken place. Last year the average salary of all member bank officers was $5,200, and of other bank employes $1,930. At the same time, the number of bank employes has been increasing along with the growth in the size of the banks and in business handled. Between 1940 and 1945 the Federal Reserve found that member bank personnel increased by 22%, and the figure today is considerably above the 1945 average due to the large number of service men who have since returned.

Under these circumstances, bank managements have followed a conservative policy on dividend payments. Although there have been numerous increases in bank dividends since the end of the war, the increases in most cases have been moderate. Moreover, conservative dividend policies may be expected to continue for some years ahead, due to the fact that the banking supervisory authorities have urged that many banks should build up their capital funds to bear a higher relation to their swollen deposits, rather than paying out increased earnings in dividends. What the banks wish to avoid is having the politicians think that they are making too much money, since that would undoubtedly call forth still more radical schemes for lowering of interest rates and control of bank investments.

The accompanying summary of the 17 largest banks shows a rather unusual evenness in the dividend yield, averaging 3.5% on the current annual dividend rate at the approximate market prices. In some cases the indicated 1945 net earnings are subject to qualification as to treatment of security profits and reserves.

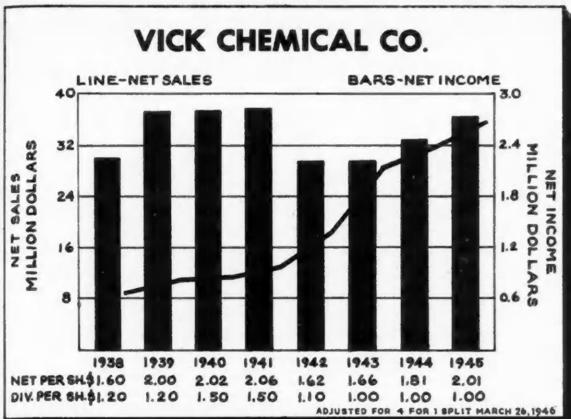
Investment advisors appear quite generally to recommend that a well-balanced general portfolio have a portion in sound bank stocks, both for current yield and for possible long-term appreciation. This, however, does not necessarily mean stocks of the largest banks, since for long-term holding an investor may find that stock in a well-managed bank in his own city or town is relatively more attractive as measured in book value, earnings, dividends, and market price. Information as to small banks may not, of course, be readily available from the national investment houses, but may usually be obtained by inquiry of the local bank itself, of local competing banks which hold some of the stock in trust funds, and of local brokers.

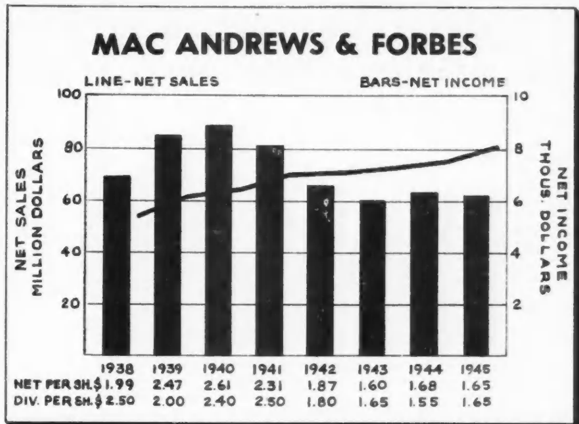
Very frequently, interesting profit possibilities exist among the lesser known banking institutions in smaller municipalities.

Banks in the United States Having Total Assets Over $1 Billion

	Total Assets (In Millions) December 31 1935	1945	Net Earns. 1945	Current Annual Dividend	Per Share Approx. Market Price	Current Dividend Yield-%
Bank of America, San Francisco	$1,277	$5,626	$3.16	$1.60	$47	3.4
Bank of the Manhattan Co., N. Y.	548	1,359	5.11	1.20	32	3.7
Bankers Trust Co., New York	1,032	1,922	3.39	1.80	50	3.6
Central Hanover B. & Tr., N. Y.	915	1,972	11.67	4.00	115	3.5
Chase National Bank, New York	2,351	6,093	3.59	1.60	45	3.5
Chemical Bank & Tr. Co., New York	625	1,638	5.31	1.80	50	3.6
Cleveland Trust Co., Cleveland	338	1,112	35.46	7.00	290	2.4
Continental Ill. B. & T. Co., Chicago	1,141	2,827	8.45	4.00	104	3.8
First National Bank, Boston	730	1,704	3.11	2.00	57	3.5
First National Bank, Chicago	925	2,475	14.74	8.00	245	3.3
First National Bank, New York	584	1,012	122.92	80.00	1,875	4.3
Guaranty Trust Co. of New York	1,847	3,814	23.62	12.00	344	3.5
Irving Trust Company, New York	720	1,428	1.22	0.80	20	4.0
Manufacturers Trust Co., New York	673	2,693	9.75	2.40	63	3.8
National Bank of Detroit	396	1,327	3.50	1.30	42	3.1
National City Bank of New York	1,881	5,434	4.93	1.60	47	3.4
Security-1st Natl. B., Los Angeles	591	1,736	5.73	2.40	74	3.2

6 Issues With Continuous Dividend Records





VICK CHEMICAL COMPANY

BUSINESS: Company specializes largely in the production of proprietary medicinals for the treatment of colds, including such well known brands as Vapo-Rub, Vick's Cough Drops and Va-tro-nol. Considerable diversification is achieved through subsidiaries making pharmaceuticals, vitamins, perfumes and various chemicals.

OUTLOOK: Widespread approval of the company's products has been indicated by a consistent uptrend in sales for the past eight years in a row, 1945 volume of $35.6 million establishing a peak record and compared with sales of $8.9 million in 1938. While liberal profit margins were characteristic of prewar operations, they trended downward in war years under the impact of tight Federal pricing policies and heavy taxes. Net earnings according dipped slightly in 1942, but since then have risen steadily to about $2 per share on the recently split up stock, approximately equaling average earnings in the 1939-41 period. Prospective high level of national income should lead to expanding sales, although promotional costs are likely to rise also. But as the company has practically no reconversion expenses, enjoys a low wage-price factor and will benefit from elimination of heavy excess profits taxes, net earnings should tend to show further and substantial improvement.

DIVIDEND: For the past 12 years, with adjustments for the recent split-up, regular dividends have been paid in every year at the rate of $1 per share on the one class capitalization, supplemented by frequent extras until the outbreak of war. Company's strong financial condition should warrant near term resumption of extra distributions now that operations have again become normal.

MARKET ACTION: Recent price of 52 is close to high for the year and compares with a 1946 low of 37¼.

COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	June 30, 1941	June 30, 1945	Change
Cash	$3,428	$2,782	— $646
Marketable securities	501	3,026	+ 2,525
Receivables, net	5,140	2,389	— 2,751
Inventories, net	2,656	8,336	+ 5,680
Other current assets	....	355	+ 355
TOTAL CURRENT ASSETS	11,725	16,888	+ 5,163
Plant and equipment	2,406	5,426	+ 3,020
Less depreciation	882	2,414	+ 1,532
Net property	1,524	3,012	+ 1,488
Other assets	72	827	+ 755
TOTAL ASSETS	13,321	20,727	+ 7,406
LIABILITIES			
Accounts payable and accruals	322	1,911	+ 1,579
Reserve for taxes	1,263	4,163	+ 2,900
TOTAL CURRENT LIABILITIES	1,595	6,074	+ 4,479
Minority Interest	....	237	+ 237
Reserves	700	1,400	+ 700
Capital	2,630	2,612	— 18
Surplus	8,396	10,404	+ 2,008
TOTAL LIABILITIES	13,321	20,727	+ 7,406
WORKING CAPITAL	10,130	10,814	+ 684
Current Ratio	7.3	2.7	— 4.6

Thumbnail Stock Appraisal

MacANDREWS & FORBES CO.

BUSINESS: Company for more than forty years past has specialized in the importation and processing of licorice roots, establishing a dominant position as a supplier of licorice extracts to the tobacco and candy industries. Derivatives from these same roots are sold as fire-extinguishing chemicals and the company owns a 27.43% interest in American-LaFrance-Foamite Corp. Fibrous residues are used for the manufacture of insulating and box boards.

OUTLOOK: Despite the almost complete shut off of imports from the Near East during war years, this concern had such a large reserve stock of licorice roots on hand that it was able to retain sales at rising levels until the resumption of shipping. Due to the bright outlook for the makers of cigarettes, cigars and snuff, the company's exceptionally strong trade position should find reflection in large volume and satisfactory profits. Net earnings, even in depression years, have been consistent and stable for many years past, averaging about $2.40 per share in the prewar decade, although EPT brought down net to an average of about $1.60 during the war period. Net sales in 1945 reached a record level of $8.1 million, and relief from EPT in 1946 increased net earnings for the first quarter by about 20% compared with the 1945 period. As only about 650 employees are required to handle the business, wage problems are not serious.

DIVIDEND: Company has never failed to pay a dividend in any of the past 43 years, the annual rate during the 1934-40 period being $2 per share plus frequent extras ranging from 25 cents to $1 per share. In war years the rate was shaved to $1.55 and the latest quarterly payment was 35 cents per share following a distribution of 65 cents in the first quarter. At recent price the yield of 3.9% is not unattractive and chances for near term improvement are good.

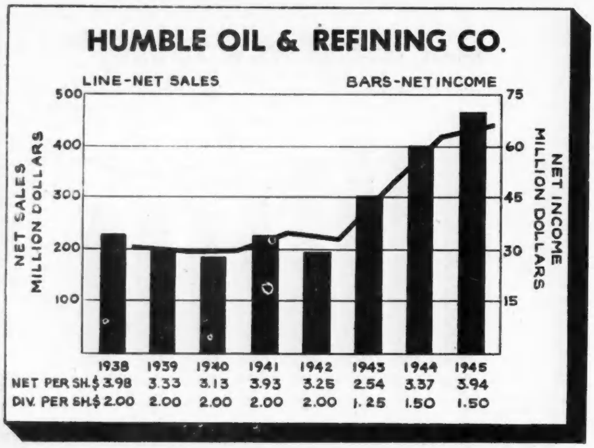
MARKET ACTION: Recent price—41 compares with a high for the year of 42½. Low in 1945 was 28¾.

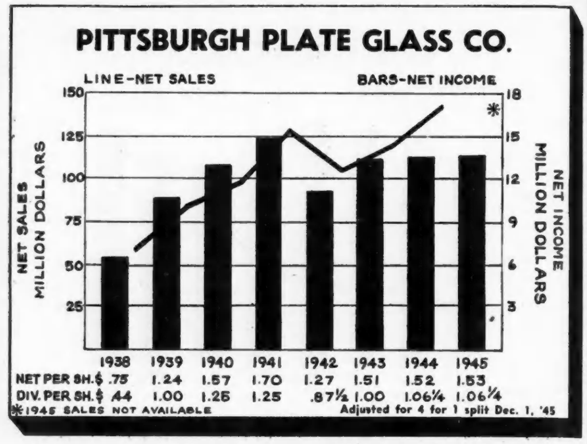
COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
Cash	$1,592	$1,100	— $492
Marketable securities	521	1,298	+ 777
Receivables, net	651	444	— 207
Inventories, net	3,566	3,406	— 160
TOTAL CURRENT ASSETS	6,330	6,248	— 82
Plant and equipment	5,508	5,553	+ 45
Less depreciation	3,061	3,481	+ 420
Net property	2,447	2,072	— 375
Other assets	2,121	2,330	+ 209
TOTAL ASSETS	10,898	10,650	— 248
LIABILITIES			
Accounts payable and accruals	757	648	— 109
Reserve for taxes	623	564	— 59
TOTAL CURRENT LIABILITIES	1,380	1,212	— 168
Reserves	157	28	— 129
Capital	5,029	5,029	....
Surplus	4,332	4,381	+ 49
TOTAL LIABILITIES	10,898	10,650	— 248
WORKING CAPITAL	4,950	5,036	+ 86
Current Ratio	4.6	5.1	+ .5

Thumbnail Stock Appraisal

6 Issues With Continuous Dividend Records





HUMBLE OIL & REFINING COMPANY

BUSINESS: Humble Oil, about 72% owned by Standard Oil Co. of New Jersey, is engaged in every phase of the petroleum industry, but the production and purchase of crude oil is its chief activity. Operations center mainly in Texas, where the company's 8000 miles of trunk and gathering pipelines serve every important oil field and supply Humble's oil refineries. Over 700,000 acres of proven oil lands are owned in various Southern States, along with some 8400 productive wells.

OUTLOOK: Record breaking sales of $442 million in 1945 reflected the latent civilian demand for gasoline which became expressive after VJ Day. As automobile deliveries to customers mount after strikes subside, demand for all petroleum products promises to sustain volume at high levels. In addition to its local sales, Humble will be shipping huge quantities of crude to its parent company in New Jersey. The recent price rise of 10 cents a barrel for crude should be beneficial, although not adequate to offset soaring costs for drilling and exploration work. Outlook for expanding sales of natural gas and other products is also bright. Company's long record for stable earning power goes back for more than twenty-five years. Net income in 1945 amounted to $3.94 per share against $3.37 in 1944 and earned surplus rose to $269 million. With peak working capital of $102 million and $40 million of term debt financed at 1¾%, an exceptionally strong financial position is evident.

DIVIDEND: Distributions to shareholders have been made in every year since 1918, rate of the past two years having been $1.50 per share. In view of the ample coverage by earnings, dividends could easily be more liberal if net continues to be satisfactory. Currently the obtainable yield is only about 2%.

MARKET ACTION: Recent price around 71 is about a point below the high for 1946, advancing from a low of 57½ for the year.

COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
Cash	$21,768	$49,225	+$27,457
U. S. Government securities	5,000	48,300	+ 43,300
Receivables, net	13,111	32,065	+ 18,954
Inventories, net	36,387	42,934	+ 6,547
TOTAL CURRENT ASSETS	76,266	172,524	+ 96,258
Plant and equipment	520,878	664,265	+123,387
Less depreciation	195,797	280,067	+ 84,270
Net property	325,081	384,198	+ 59,117
Other assets	5,943	2,830	— 3,113
TOTAL ASSETS	407,290	559,552	+152,262
LIABILITIES			
Notes payable	1,018	....	— 1,018
Accounts payable and accruals	29,425	41,124	+ 11,699
Reserve for taxes	....	29,551	+ 29,551
TOTAL CURRENT LIABILITIES	30,443	70,675	+ 40,232
Deferred liabilities	478	685	+ 207
Short term debt	....	3,613	+ 3,613
Long term debt	47,606	40,000	— 7,606
Capital	174,725	174,725	....
Surplus	154,038	269,854	+115,816
TOTAL LIABILITIES	407,290	559,552	+152,262
WORKING CAPITAL	45,823	101,849	+ 56,026
Current Ratio	2.5	2.4	— .1

Thumbnail Stock Appraisal

PITTSBURGH PLATE GLASS COMPANY

BUSINESS: This concern is the dominant plate glass maker in the country, as well as one of the largest manufacturers of paints, varnishes, lacquers and brushes. Production of certain chemicals substantially swells volume, sales of alkalies and chlorine being an important factor.

OUTLOOK: When the current interruption to the building boom fades out, chances that demand for the company's products of all kinds will become exceptionally heavy are good, to say the least. Meanwhile, however, profit margins will continue to be uncertain until the relationship between costs and prices becomes clearer. Strike difficulties have been settled but certain raw materials are still in scant supply. Company's substantial interest in Pittsburgh-Corning Glass Co., producers of Foam-glass, now proving of great value in building construction, is likely to expand earnings in the medium term. Net earnings of Pittsburgh Plate Glass Co. for many years past have exhibited unusual stability, and although operating profit in 1945 of $18.3 million compared with $23.7 million in 1944, tax credits held final net to almost an identical level around $13.5 million, equal to $1.53 on the present outstanding shares. As some slight price relief has been granted, and taxes will be lighter this year, profit margins should widen somewhat.

DIVIDEND: Since 1899 the company has paid dividends in every year, in the past two years supplemented by small extras. Regular rate on the shares now split 4 to 1 is 20 cents quarterly.

MARKET ACTION: At a recent price of approximately 42, a yield of under 2% is not attractive, but potentials for extra distributions must be considered. High for 1946 was 48¾.

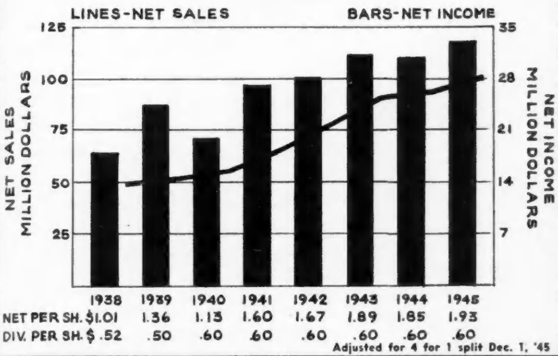
COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
Cash	$11,290	$12,196	+ $906
Marketable securities	13,444	28,597	+15,153
Receivables, net	11,608	9,404	— 2,204
Inventories, net	25,455	28,539	+ 3,084
Ref. pr. yrs. taxes	....	1,180	+ 1,180
TOTAL CURRENT ASSETS	61,797	79,916	+18,119
Net property	65,100	57,000	— 8,100
Other assets	14,491	17,509	+ 3,018
TOTAL ASSETS	141,388	154,425	+13,037
LIABILITIES			
Notes payable	....	400	+ 400
Accounts payable and accruals	22,505	7,863	—14,642
Reserve for taxes	....	9,853	+ 9,853
TOTAL CURRENT LIABILITIES	22,505	18,116	— 4,389
Deferred liabilities	560	73	— 487
Reserves	9,070	9,900	+ 830
Capital	54,961	88,522	+33,561
Surplus	54,292	37,814	—16,478
TOTAL LIABILITIES	141,388	154,425	+13,037
WORKING CAPITAL	39,292	61,800	+22,508
Current Ratio	2.7	4.4	+ 1.7

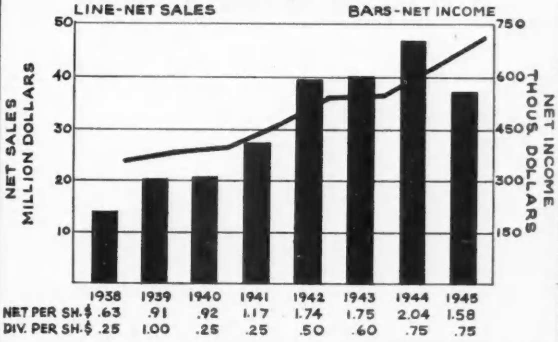
Thumbnail Stock Appraisal

6 Issues With Continuous Dividend Records

J. J. NEWBERRY CO.



ALDENS, INC.
(Formerly Chicago Mail Order)



J. J. NEWBERRY CO., INC.

BUSINESS: Company and its subsidiaries operate a chain of 489 retail stores located in 45 States, distributing merchandise chiefly in the 5 cents to $2 range. Notions, stationery, hosiery, candy and household articles are extensively featured, and in 267 of the stores lunch counters are operated.

OUTLOOK: Sales of the company passed the $100 million mark for the first time in 1945 and thus far in 1946 are continuing to climb. Ever since 1929 the business has shown consistent profits, and net earnings in late years rose to an all time peak of $1.93 per share last year, based upon the present capitalization. Despite margins narrowed by price restrictions and a scant supply of many popular items, large public spending for non-durables and increasing amounts of hard goods promises continued good earnings in the medium term perid. As quality is a minor factor in goods of the very low-price range and percentage rises in price are hardly noticeable, ability of Newberry to achieve high level volume is enhanced. Relief from over $7 million EPT paid last year should widen profit margins measurably in 1946. Ample working capital has been assured by sale of $10 million 3¾% preferred, and current assets at the end of 1945 exceeded current liabilities by a margin of about 3.3 to 1.

DIVIDEND: Stable earning power has warranted payment of dividends without a break since 1928, the current rate of 25 cents per share quarterly taking only a conservative share of the net. Relative quarterly distributions for the past 5 years were a the rate of 15 cents per share.

MARKET ACTION: Recent price about 40 is near an all time high record and compares with a 1946 low of around 32.

COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
Cash	$2,974	$13,308	+$10,334
U. S. Government securities	....	250	+ 250
Receivables, net	65	250	+ 185
Inventories, net	12,393	13,656	+ 1,263
Post War Refund	....	532	+ 532
TOTAL CURRENT ASSETS	15,432	27,996	+ 12,564
Plant and equipment	25,406	26,071	+ 665
Less depreciation	6,906	10,000	+ 3,094
Net property	18,500	16,071	— 2,429
Other assets	523	939	+ 416
TOTAL ASSETS	34,455	45,006	+ 10,551
LIABILITIES			
Notes payable	75	....	— 75
Accounts payable and accruals	3,579	7,555	+ 3,976
Reserve for taxes	2,766	447(a)	— 2,319
TOTAL CURRENT LIABILITIES	6,420	8,002	+ 1,582
Minority Interest	1,071	....	— 1,071
Long term debt	4,693	2,699	— 1,994
Reserves	239	270	+ 31
Capital	10,004	14,906	+ 4,902
Surplus	12,028	19,129	+ 7,101
TOTAL LIABILITIES	34,455	45,006	+ 10,551
WORKING CAPITAL	9,012	19,994	+ 10,982
Current Ratio	2.4	3.4	+ 1.0

(a) After deducting $8 million U. S. tax notes.

Thumbnail Stock Appraisal

ALDEN'S INC.

BUSINESS: Company for many years past was known as Chicago Mail Order Company, established nearly thirty years ago in Chicago. Although until 1944, mail orders constituted the main support for volume, the business was thereafter extended to a limited extent into the retail store field, by acquisition of several established retailers in or near Chicago.

OUTLOOK: Deferred demand for consumer goods is being readily exploited by the company's large catalog with its more than 12,000 listings. As Aldens specializes extensively in wearing apparel and household goods generally sought after by women, orders are flooding in from this source and are likely to mount as supplies of long needed goods are increased and public purchasing power remains ample. Sales of this concern have trended upward from $17.9 million in 1933 to an all time peak of $47.7 million last year. During this entire period operations were profitable although net earnings gains have not been proportionate with the upsurge in volume. When relief from the current cost-price squeeze comes, margins should become more satisfactory and tax benefits will help to bolster net. Per share net has ranged from $1.17 in 1941 to a high of $2.04 in 1944, followed by a slight recession to $1.58 in 1945.

DIVIDEND: In every year except two, company has paid dividends regularly since 1929, with an unbroken record since 1934, although the rate has varied considerably. Including extras of 15 cents per share in 1944 and 1945, relative distributions totalled 60 cents and 75 cents per share respectively.

MARKET ACTION: Recent price—48 compared with a high for the year only a fraction above this figure. Low for 1946 was 31½ and for 1945—19½.

COMPARABLE BALANCE SHEET ITEMS
(in thousands of dollars)

ASSETS	Jan. 2, 1942	Dec. 31, 1945	Change
Cash	$452	$2,129	+$1,677
U. S. Government securities	164	2,313	+ 2,149
Receivables, net	2,971	3,326	+ 355
Inventories, net	7,548	6,810	— 738
TOTAL CURRENT ASSETS	11,135	14,578	+ 3,443
Plant and equipment	1,861	2,168	+ 307
Less depreciation	1,297	1,708	+ 411
Net property	564	460	— 104
Other assets	465	563	+ 98
TOTAL ASSETS	12,164	15,601	+ 3,437
LIABILITIES			
Notes payable	2,445	61	— 2,384
Accounts payable and accruals	2,190	4,406	+ 2,216
Reserve for taxes	427	323(a)	— 104
Other current liabilities	....	55	+ 55
TOTAL CURRENT LIABILITIES	5,062	4,845	— 217
Long term debt	1,500	3,000	+ 1,500
Reserves	238	597	+ 359
Capital	1,677	1,776	+ 99
Surplus	3,687	5,383	+ 1,696
TOTAL LIABILITIES	12,164	15,601	+ 3,437
WORKING CAPITAL	6,073	9,733	+ 3,660
Current Ratio	2.2	3.0	+ .8

(a) After deducting $1.2 million U. S. tax notes.

Thumbnail Stock Appraisal

Evaluating

Recent and Potential SPLIT-UPS

By H. F. TRAVIS

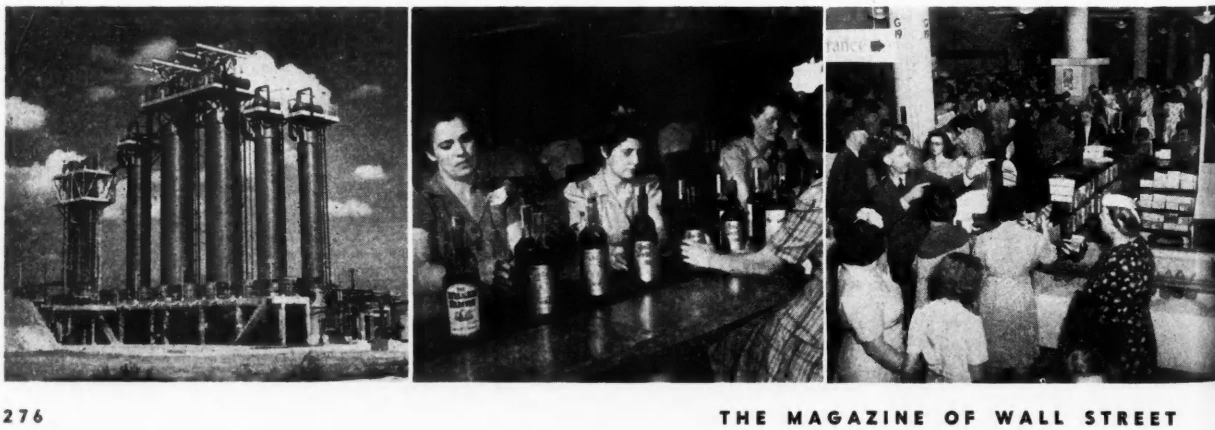
MOST PEOPLE APPARENTLY would rather give $40 each for four shares (a total of $160) for an interest in a company than pay only $100 for a single share of stock representing an identical proportion of the business. That fact may seem incredible, but human behavior never has been known to be always logical. The tendency to evaluate fractional parts of any unit more liberally than the whole, so characteristic of us all, affords the simplest explanation for the widespread popularity of the stock split technique which has added millions of dollars to security values in the last year.

The knowledge that stock splits usually enhance values naturally has stimulated speculative purchases in anticipation of such developments. This transitory demand for stocks has intensified legitimate investment interest and often has contributed to unjustified price appreciation. Dangers inherent in speculative excesses are recognized by experienced analysts and others charged with protecting inexperienced investors. As a result, New York Stock Exchange authorities have felt impelled to discourage the practice and to warn the public of risks involved.

Once upon a time the task of finding an explanation for unusual strength in a particular stock involved diligent study of statistical sources. Nowadays, it seems that one needs only to discover when management intends to give due consideration to splitting shares into smaller units. Of course, this observation smacks of exaggeration, but instances of enlarging capitalizations have become so numerous that almost any stock above $50 a share is regarded as a candidate for a split. Reasons for breakups are sufficiently urgent in so many corporations that the trend appears destined to continue for some time. Under the circumstances, a study of the subject should prove helpful in appraising individual stocks that may be affected.

A better understanding of the pro's and con's of this problem may be gained from an analysis of the principal reasons for stock splits. Although any trend such as this which appeals to public fancy usually is carried to an extreme, it should not be assumed that there is no economic justification for the practice. It represents recognition of growth. Instances of splits have become numerous because wartime technological advancement stimulated un-

As stocks represent equities in going concerns, a split-up involves no basic change in net worth, but merely distributes it over a greater number of share units. Usually this results in a broader public ownership of the companies' capitalization.



usual expansion in earnings of many small companies.

To enable larger numbers of investors to obtain an interest in growth situations and to avoid expressing earnings in fantastic figures, managements have regarded with favor the stock split pattern. Hence, the following self-evident reasons may be set forth to justify the policy which has figured so prominently in the latest phase of the market advance:

1. To broaden the market for shares so as to simplify future financial growth.
2. To distract attention from abnormally rapid increase in earnings and dividends.
3. To appeal to greater numbers of new investors interested only in low priced common stocks.

One important phase of this subject often overlooked by investors is the fact that the status of a stockholder remains unchanged by a split. In other words, his proportional interest is no greater after the change in capitalization than beforehand. As a specific example, although he may own 500 shares where he previously held only 100, his proportionate interest in the business has not been enlarged. Accordingly, although market values usually increase as a result of splits, the net worth of stocks as expressed on a share basis is reduced to correspond with the increase in the number of shares. That is, if equity of a stock amounted to $50 a share before a two-for-one split, it would be approximately $25 a share after the increase in capitalization.

This may be more readily understood by citation of specific examples. In the accompanying table, the effects of stock splits are graphically illustrated. It may be seen that although prices rose sensationally, there was little relative change in equity values.

Of course book value is only one factor contributing to market worth of securities. In the case of common stocks, earnings, dividends and yield usually receive greater consideration than net worth of assets. Hence, in appraising the outlook for stocks,

Market Action of Recent Split Stocks

		Price Change			Share Equity	
	Split	A	B	C	12/31/44*	*12/31/45
Bond Stores	2 for 1	47	56	96	$13.53	$14.80
Grant (W. T.)	2 for 1	43	46	80	15.95	16.32
Life Savers	2 for 1	53	56	75	7.79	8.22
Loew's, Inc.	3 for 1	66	78	123	24.64	26.06
Pittsburgh Plate Glass	4 for 1	129	135	195	14.70	15.18
Sears Roebuck	4 for 1	119	121	199	14.36	14.82
Westinghouse Electric	4 for 1	106	121	159	23.69	24.67

A—Month before split
B—Month after split
C—Equivalent at 1946 high

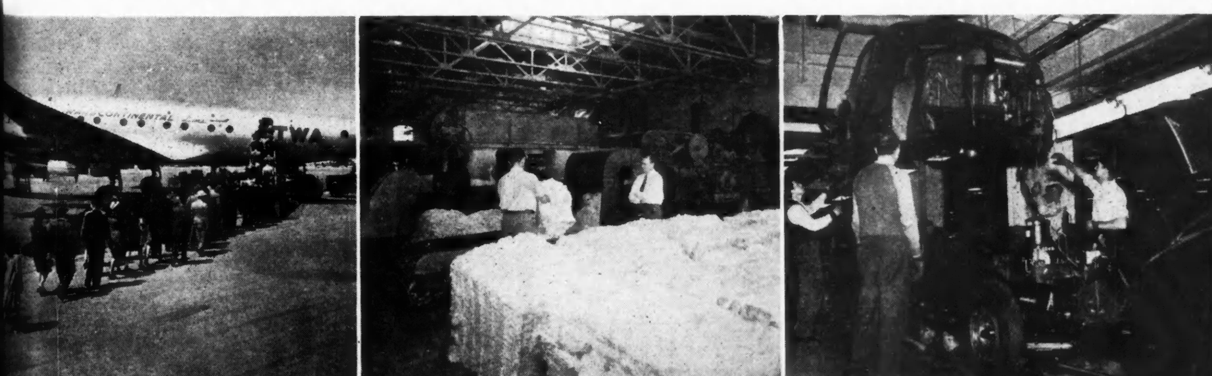
* Adjusted for split. For Loew's fiscal years end August 31, while for Grant and Sears, Roebuck years end following January 31. a

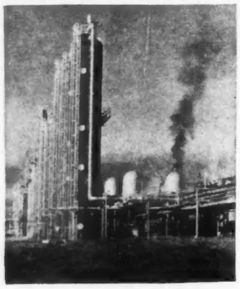
it is important to determine, if possible, the extent to which wartime earnings improvement may become permanent. No general rule is available for making such calculations, but it seems obvious that some companies are more likely than others to retain gains of recent years.

Outstanding examples of seemingly permanent growth are to be found in the drug field. Great strides were made in discovery and development of new drugs. Probably the best known example is penicillin. Charles Pfizer & Co. is generally believed to be the largest producer of this "wonder drug" and has experienced phenomenal earnings growth. The company reported for the first quarter this year net of $1.94 a share against 37c a share for the same period last year. This showing reflected expansion in sales of more than 50 per cent. One might assume, therefore, that chances were favorable of continuing this rising trend. The stock was split on a three-for-one basis about a year ago and since that time has recovered to a price level higher than prevailed before the split. Heyden Chemical is another representative of this industry that appears to have lifted earnings permanently to a higher level. This company is regarded as the second largest producer of penicillin and holds a large interest in American Potash & Chemical Corporation.

Other industries which (*Please turn to page* 299)

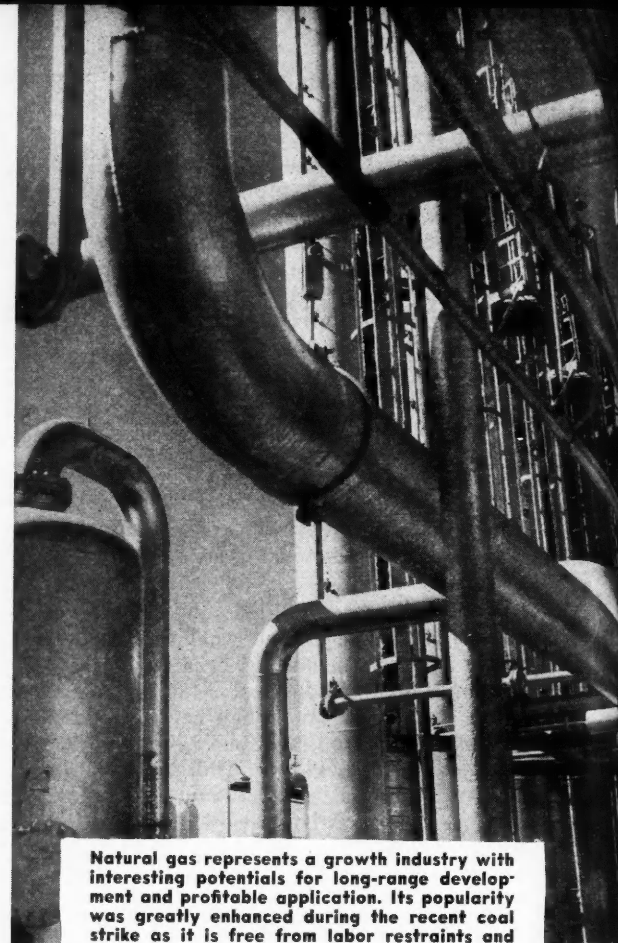
The trend to stock splits has spread to many industries and is motivated by various factors. Most split issues have tended to appreciate sharply, but the rise is based upon speculative sentiment rather than on any commensurate increase in equities involved.





Growing Importance OF THE NATURAL GAS INDUSTRY

—leading companies appraised

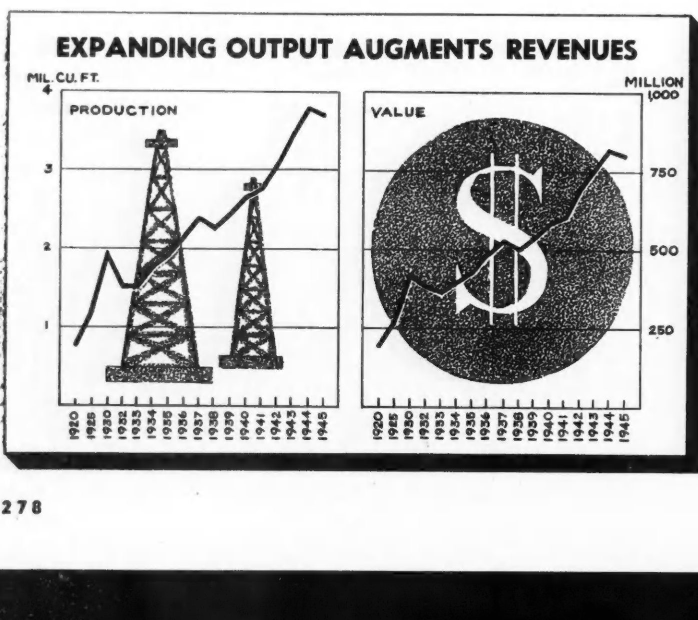


Natural gas represents a growth industry with interesting potentials for long-range development and profitable application. Its popularity was greatly enhanced during the recent coal strike as it is free from labor restraints and delivery problems.

By FRANK R. WALTERS

MENTION "NATURAL GAS" to the average person among our population and the chances are that his conception of its importance is very vague. While everyone knows that in certain favored localities in the country, this fuel lights and heats homes, as well as proving useful to some industries, its quiet growth during the last generation to rank as a truly giant enterprise has not been broadly realized. To the better informed, however, earnings and dividends of natural gas producers have achieved such an interesting status that shares of the leaders carry a high measure of investment and speculative appeal.

While natural gas has been used for centuries past in parts of the world where it could enjoy spot consumption, production for many years was sporadic and restricted to locations remote from populous centers. Here in the United States it was first used in 1825 for lighting the City of Fredonia, N. Y., and in 1840 it was used to manufacture salt in Pennsylvania. But though natural gas has been found in large quantities in the Appalachian and Mid-Continent fields since the late nineteenth century, broad expansion of distributing pipelines began only about 20 years ago. Today, however, industries and home owners in Cleveland, Detroit, Philadelphia, Chicago, Los Angeles and Denver, to mention only a few big cities, can turn on a petcock to heat up anything from an open hearth furnace to a kitchen stove, although the gas may have been piped for more than a thousand miles to reach them. Thus natural gas has now become available to some 45 million population in certain areas, and broadening of the field depends mainly upon extension of the



distributing pipe lines from Texas, West Virginia, Louisiana, Kansas and other gas producing States.

To grasp the extraordinary growth of this industry within a relatively short period, the figures become almost astronomical. In 1920, for example, production of natural gas in the United States was about 8 billion cubic feet, valued at $196 million. In 1945, however, marketed production alone had soared to three and three quarters trillion cubic feet, valued at more than $820 million dollars. Capital invested in the industry has risen to nearly $3 billion. Pipe lines and municipal natural gas mains now in use are estimated at 218,000 miles, almost exactly equal to the nation's tally of railroad trackage. And although natural gas is one of the lightest in weight known to science, consumers used about 90 million tons of it last year, an amount by this unusual yardstick closely comparable to the total output of the steel industry in a peak war year. Quite clearly, it has become one of the three leading fuels in the United States, and its future competitive position will be interesting to watch.

Popularity of natural gas is enhanced by the fact that it is clean, practically odorless and enjoys a thermal capacity of 1000 btus (British thermal units) compared with only 540 btus for ordinary gas derived from coal. Thus it has become widely used in the steel, glass and copper smelting industries and a great favorite among householders fortunate enough to have an available supply. Indeed, the major oil producers now use a substantial quantity of their own gas to stimulate extraction of crude oil from the ground. First signal of a successful oil well is usually an outburst of natural gas, bringing in its wake the valuable crude. Whereas this highly inflammable "wet" gas used to be a headache for the oil companies, they now carefully conserve it, first extracting the volatile natural gasoline mixed with it, and then either selling the rest of the gas or pumping it back into the ground to force more oil through the deep sands, repressurizing as it is termed. About 15% of total natural gas production never is sold at all.

Real backbone of the industry, however, is supplied by producers of so-called "dry gas", which comes from immense underground caverns in form requiring no treatment before delivery through pipelines to the consumer. No wastage occurs, for the outflow is controlled and can be shut off by the mere turn of a valve. From thousands of these gas wells, mainly located in Texas and West Virginia, the gas is pumped and "boosted" along through pipe lines to distant cities or sold to manufacturers of carbon black, themselves comprising another miracle industry. Carbon black is the soot resulting from incomplete combustion of the hydrocarbon molecules in the gas and an essential component in the manufacture of rubber. By "cracking" natural gas, a long list of chemicals such as carbon tetrachloride, butadiene and other synthetics are produced, but to date these account for only about 1½% of total natural gas consumed, whereas over 500 billion cubic feet are required by the makers of carbon black, or roughly 12% of the total. Industry buys about 850 million pounds annually of this valuable material.

Unexploited Reserves

With experts figuring that reserves of natural gas in the United States are sufficient to supply all demands for the next 35 years at least, the industry is in a favorable position to exploit many markets as yet untouched. To this end, between drilling of new wells, construction of far flung pipelines and provisions for pumping equipment, about $120 million has been earmarked for medium term spending. Additionally, certain strong interests in the industry have bid $40 million for the three immense pipeline systems built by the Government to transport military fuels to the Atlantic Seaboard, and to refit them for carrying gas would cost another $40 million. Fact is that the thickly populated and highly industrialized sections along the Atlantic Coast offer a very inviting field for first time exploitation, especially as freedom from catastrophic coal strikes would be a (*Please turn to page* 300)

Companies Prominent in Natural Gas Industry

	In Dollars Per Common Share									
	Book Value	Cash Items	1936-39 Avge. Net	1945 Net	1936-39 Avge. Div.	1945 Dividend	Dividend Yield	1945-46 Price Range	Recent Price	Price-Earnings Ratio
American Light & Traction	$42.66	$9.26	$1.60	$1.48	$1.26	$1.20	4.6%	29⅛-17½	$26	17.5
Arkansas Natural Gas "A"	4.93(a)	1.42(a)	.30(a)	.21(a)	Nil	Nil	....	8¼- 3⅞	7	33.3
Columbia Gas & Electric	11.64	2.64	.48	.74	.21	.20	1.5	14 - 4⅛	13	17.5
El Paso Natural Gas	21.05	1.38	2.95	3.56	2.00(b)	2.40	4.1	58½-34¼	58	16.2
Lone Star Gas	10.73	1.04	1.01	.97	.62	.70	3.5	20 -10⅞	20	20.6
Oklahoma Natural Gas (e)	20.62	1.87	1.91	3.50	.25	2.00	3.9	53½-29¼	50½	14.4
Pacific Gas & Electric	32.30	3.90	2.64	2.16	1.87	2.00	4.5	46 -34⅛	44	20.4
Pacific Lighting	27.27	7.34	3.94	3.02	3.05	3.00	4.8	64¾-48	62	20.6
Peoples Gas Light & Coke	86.18	40.31	3.49	5.47	1.37	4.00	3.6	115 -69	111	20.3
United Gas Corp.	11.90	3.04	.71(c)	.84	Nil	.65	3.4	21⅛- 9¾	19	22.6

(a) Based on combined number of "A" and common.
(b) 1937-9 Average.
(c) Adjusted for present capitalization, 1937-9 average.
(e) Fiscal year ends August 31.

Another LOOK At . . . .

General Motors, Western Union, Bendix Aviation, Columbia Broadcasting, Pillsbury Mills, Purity Bakeries, Transcontinental & Western Air

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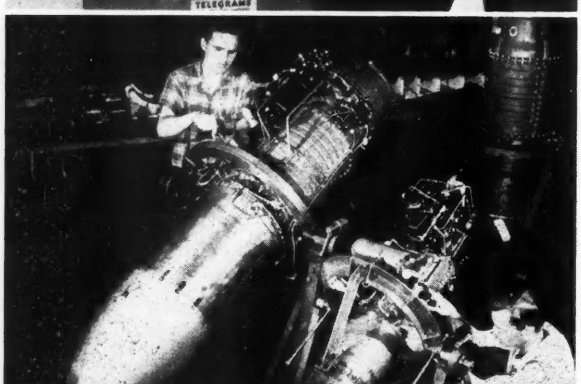
By STANLEY DEVLIN



Companies must be reappraised in the light of their changing industry and earnings status.

IN THE LIGHT OF RECENT momentous events, this is an appropriate time for taking another look at business prospects. As an investor, you are fortunate in being able to exercise the prerogative of mind-changing, usually ascribed to women. When you become dissatisfied with the way things are going with a company whose stock you own, you are free to "change horses" immediately.

Management lacks this tactical advantage of great flexibility. If you think business executives would not appreciate the privilege of altering their course at a moment's notice, you are sadly mistaken. For the most part, fundamental policies must be established for considerable periods ahead. You can well imagine how different actual operations would have been, for example, if managements had been in position to lay out programs for 1946 knowing as much now as they did last December. Policies now would be much different, too, if those in charge of corporations could peer into the future and learn whether OPA is likely to close shop around June 30 this year or nine to twelve months later. This development means a great deal one way or the other.

Materials Situation Vital

Prospects for the remainder of the year as well as for 1947 depend in no small measure on earnings and availability of essential supplies. The productivity of labor will play a dominant part in determining these factors. No one knows the answer in detail, of course, but with the atmosphere now showing hopeful signs of clearing—at least, in major souces of raw materials and in transportation—the moment appears propitious for re-examining conditions affecting operations of several representative companies in seven lines of industry. These companies are: General Motors, Western Union, Bendix Aviation, Columbia Broadcasting, Pillsbury Mills, Purity Bakeries and Transcontinental & Western Air.

Assurance of adequate raw materials would greatly improve prospects for General Motors. Recent favorable action by OPA on ceiling prices appears to have removed any doubts over reasonable profit margins. Restoration of normal shipments of steel which could be expected to develop as soon as steel

Pertinent Statistics on Securities Reviewed

	Net Per Common Share					Dividends Per Common Share				1945-46 Price Range	Recent Price	Price-* Earnings Ratio
	First Quarter 1946	First Quarter 1945	1945	1944	1943	1946 to date	1945	1944	1943			
Bendix Aviation	Not Available		$7.32	$7.22	$6.95	$1.00	$2.75	$3.00	$3.00	63 -45½	$52	7.1
Columbia Broadcasting	.85	.66	3.11	2.72	2.64	.80	1.80	1.80	1.80	50⅛-31	37	11.9
General Motors	def.87	1.09	4.07	3.68	3.23	1.25	3.00	3.00	2.00	80⅜-62	73	17.9
Pillsbury Mills	Not Available		2.46	2.12	2.13	1.00	1.45	1.25	1 25	37½-25	32	13.0
Purity Bakeries	1.17	.92	2.60	2.69	2.86	.80	2.00	2.00	2.10	38⅝-23½	35	13.4
Transcon. & Western Airl.	def1.51	.24	1.84	2.82	2.12	Nil	Nil	Nil	Nil	79 -26	50	27.1
Western Union "A"	def4.64	.26	3.61	6.21	5.80	Nil	2.00	2.00	2.00	56 -34½	38	10 5

* Based on 1945 Net. def—deficit.

producers were assured of adequate fuel soon would enable motor plants to get assembly lines in full swing. It would be rash to attempt to say when such a development may be expected, but indications now are that operations may show a semblance of capacity production by the fourth quarter. Unless unforeseen difficulties are encountered in the next few months, management may reasonably look forward to a high rate of output early in 1947. As a matter of fact, General Motors and its principal competitors should be in position about a year hence to fill orders fairly promptly.

Effect of Strikes

It is obvious that 1946 results will fall substantially below earlier expectations. Whereas many analysts had expected General Motors to show earnings of $5 a share or better in the first calendar year after V-J Day, it now seems doubtful whether earnings will much exceed $2.50 to $3 a share. Those who look for continuation of labor wrangling figure that this major factor in the automobile industry may be lucky to show earnings in excess of the indicated $2 annual dividend rate. It is generally believed that excess profit tax credits may be sufficient to assure earnings of at least $2 a share this year. The recent decision of directors to reduce the annual dividend rate from $3 to $2 a share suggested that management itself felt doubtful that 1946 earnings would cover the former $3 requirement.

The stifling effect of industrial unrest in the affairs of large corporations such as General Motors becomes increasingly evident when it is learned that the company's production is being limited to about one-third of the volume that would be possible if supplies were not restricted by strikes in companies making materials for General Motors. In the case of the Chevrolet division alone, it is pointed out that operations are being slowed down by strikes in plants of 68 suppliers. It is evident, therefore, that settlement of major disputes would not entirely solve the problem for General Motors.

The prolonged strike in General Motors' plants was a factor in holding down sales in the first quarter to $75 million. It was not surprising that the company reported a deficit in operations of about $16 million after allowing for tax credits. Indications point to a loss for the first six months and at the moment, it seems doubtful if the company can do better than break even for the first nine months of this year.

Two major factors have contributed to the disappointing showing of Western Union. In the first place, labor costs have been increased to a greater extent than had been expected. The pattern established by the steel strike settlement weighs heavily on a company such as Western Union in which labor costs take such a large portion of revenues. Moreover, being a utility, the company is handicapped in raising rates to compensate for higher cost.

The other principal handicap encountered is delay in obtaining new labor saving equipment. It is obvious that management must take steps to combat higher costs. The most effective action that might be taken would be to eliminate manual labor so far as possible in transmission of messages. Technological progress in recent years holds out hope for development of necessary equipment. A great deal of time will be required to install new machinery and to arrange operations.

Under the circumstances, it was not surprising that directors took the (*Please turn to page* 301)

Wartime changes have materially altered the earning power and future status of many companies, notably leading airlines.

Opportunities...

for Income and Price Appreciation

IN BONDS And PREFERRED STOCKS

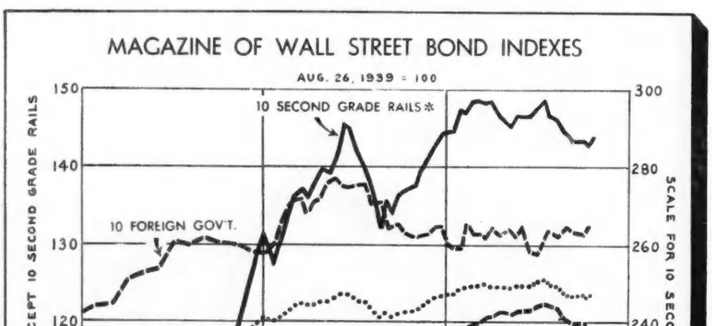
By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET's Index of Bond Prices showed the following changes for the period indicated:

	On May 18	On May 25	
40 Domestic Corporates	123.3	123.5	+ .2
10 High Grade Rails	119.2	119.1	— .1
10 Second Grade Rails	285.1	287.9	+2.8
10 High Grade Utilities	99.6	99.6	
10 High Grade Industrials	104.6	104.8	+ .2
10 Foreign Governments	132.2	132.4	+ .2

A fairly steady undertone characterized the bond market in the period under review, with Treasuries and "credit" obligations reflecting good buying support and showing little day to day change. The market has now adjusted itself to recent developments in connection with the Federal Reserve Board's termination of the preferential discount rate, and appears to have fully discounted Treasury operations scheduled for the month of June.

Further clarification of the Federal Reserve's objectives was forthcoming in the recent testimony of the Board's Chairman before the House Banking and Currency Committee. Confirming the previous indications of an anti-inflationary policy, the board will seek to limit the volume of aggregate bank credit without materially affecting the money rate structure. Presumably, this would be effected by restrictions on commercial banks' policies with regard to their Government portfolios. It is not likely that all of these objectives will be realized in the foreseeable future, but even discounting such steps as may materialize, the outlook is still substantially the same as indicated recently in these columns, i.e., a trend toward stabilization of money rates around present levels.



Indicative of the improved tone of the bond market was the action of the Standard Oil of N. J. 2⅜% debentures, which went to a premium of more than a point over its offering price of 98, and the favorable market reception accorded the Caterpillar Tractor 2s, 1956.

Foremost among the new bond offerings are the $35 million Mountain States Telephone and Telegraph forty-year debentures carrying 2⅝% coupon and the $32 million new first mortgage bonds of Ohio Public Service on a 2¾% coupon basis. The latter will be accompanied by 156,300 shares of new 3.90% preferred stock, proceeds from the combined financing to be applied to retirement of higher cost securities.

Reflecting the trend of new offerings to come are the recently filed applications for $30 million Philadelphia Electric Power, $12 million Mead Corp., $13.75 million Iowa Public Service, and $50 million Wisconsin Electric Power.

WESTERN UNION TELEGRAPH CO.: Due to wage increases and a protracted strike, this company sustained a net loss of $5,660,000 in the first quarter of 1946. Western Union 5s of 1951 and 1960 sold down approximately 13 points from the high registered this year, namely, 108 and 108¼ respectively. The company's 4½s of 1950 which is not callable prior to maturity is the nearest maturity of the company. This issue has had a price range this year of a high of 109; low 97; last around 101. Although not a secured lien, no new mortgage may be placed on its properties without giving the funding 4½s a prior lien. The low point in operating revenues appears to have been passed and despite the recent poor showing in the first quarter, interest requirements from now on should be earned by a satisfactory margin. The company has a strong financial position with net current assets on December 31, 1945, of over $33,000,000. All issues carry an investment rating of B-1 and retention is counseled for the time being.

FAIRCHILD ENGINE & AIRPLANE CORP.: This company has called for redemption all of the outstanding shares of its $2.50 cumulative preferred stock. Payment will be made on June 24th of $52.50 a share plus accrued dividends of $1.20, bringing the total exemption price to $53.70 per share. Holders of this preferred stock may convert each share of preferred stock into 14 shares of the company's common stock before the close of business June 24th.

Suggestions for Current Investment Funds

Bonds:	Recent Price	Call Price	Current Yield
Amer. & For. Pwr. Deb. 5's, 2030	$109	$106	4.5%
Intl. Tel. & Tel. Deb. 5's, 1955	105½	105	4.7
Lehigh Coal & Nav. S. F. 3½'s, 1970	105	105	3.3
N. Eng. Gas & Elec. Ass'n Deb. 5's, 1950	101	100½	4.9
N. Pacific Ref. & Imp. 5's, C, 2047	110	105*	4.5
Pittsb'gh & West Va. 1st 4½'s, 1958-60	100	102	4.5
Southern Pacific Deb. 4½'s, 1981	110	110	4.1
Preferred Stocks:			
Assoc. Dry Goods $7 2nd Pfd.	$147	N.C.	4.7%
Baldwin Locootive $2.10 Pfd.	42	$40	5.0
'Barker Bros. 4½% ($50 Par) Pfd.	56	55	4.0
Columbia Gas & Electric $6 Pfd.	110	110	5.4
Curtis Publishing $4 Prior Pfd.	75	75	5.3
Stokely-Van Camp $1 Prior Pfd.	21¾	21	4.5

* Not prior to July 1, 1052. N.C.—Not Callable.

NEW PREFFERED STOCKS: The market action of recent offerings of preferred stocks has been favorable as attested to by the following: Central Power & Light 4% preferred stock offered at 102¾, now 106½; Jacob Ruppert 4½% preferred stock offered at 103¾ now 108½; Monongahela Power $4.40 preferred stock offered at 103½, now at 110½; Sioux City Gas & Electric $3.90 preferred stock offered at 102, now 106½; Union Oil $3.75 preferred stock offered at $100, now 106½.

CENTRAL MAINE POWER CO.: This company has called for redemption on June 24th, all of its outstanding 1st mortgage 3½% bonds, series H, at 104½ and accrued interest and $4,186,000 of its first mortgage 3½% bonds, series J, at 105 and accrued interest. Payment is to be made at the office of the Trustee, Old Colony Trust Co., Boston, Mass. Funds for the redemption were obtained from the recent sale of new bonds and common stock.

DELAWARE & HUDSON CO'S IMPROVED POSITION: This company has come a considerable distance since 1943 when it adopted a debt adjustment plan in connection with maturity of its first and refunding mortgage 4% bonds. At that time, it was unable to meet maturity of the issue and offered holders of the bonds payment of 10% of principal in cash with the balance extended for 20 years. Since then, the company has reduced the extended issue by nearly $20,000,000 to $24,800,000. Interest charges on debt have been reduced to approximately $1,500,000 from $3,500,000 at the end of 1942. The adjustment plan requires the management to apply two-thirds of net income to retirement of the first mortgage 4s through the sinking fund, until the issue had been reduced to $25,000,000. It also required the company to dispose of its large portfolio of marketable securities, with the time limit for complete sale set for May 1, this year. The principal item in the portfolio was 304,600 shares of New York Central R.R. common stock and by December 31, 1945, it had sold all but 26,000 shares of the original block. The remaining shares presumably were sold during the first four months of this year. The company's 4% bonds of 1953 have had a price range this year of 107½ high; 100½ low; last 101. The issue is callable at 107½.

BUSH TERMINAL BUILDING BONDS: There has been considerable demand for this company's first mortgage 5s of 1960 which carry an investment rating of B. The price range this year has been: high 108⅛; low 103¾; last 108. The yield to maturity 4.26%. The demand for this issue undoubtedly is due to the large reduction in debt and interest requirements which the company accomplished with its war time earnings. At the end of 1945, the first 5s had been reduced to less than $5,100,000 and funds to be set aside this year for sinking fund payment will result in the reduction of the outstanding balance to $4,500,000. Since 1937 the company has acquired some $3,500,000 of this issue. The issue, which is the only debt, originally was outstanding in the amount of $12,000,000. It is secured by a first lien on all properties of the company and by pledge of the stock of Bush House, Ltd.

BUILDING Your Future Income...

EDITORIAL:

The Law of Compensation

There is a secret of success which is often overlooked, but which operates unerringly. It is the eternal Law of Compensation, and is present in every instance of personal and business achievement. Influence, fate and circumstances may give great temporary advantages, but unless one gives of his best, he will fail to make the most of his opportunities.

Sooner or later, we gain what we earn and reap what we sow. The Law is immutable and cannot be evaded, neither can it be altered by any whim or fiat of man. Industry, honesty and perseverance may seem like outmoded virtues by the false prophets of the day, but they are the elements which have made this Republic great. To substitute state paternalism for personal initiative, and stifle incentive is to invite certain disaster, for it was upon these fallacies that earlier civilizations crumbled.

This is the principle upon which the Universe is founded. It is perfect justice and the basis of harmony. It applies to nations and civilizations as well as to individuals and knows no discrimination. No one is too great or too small to escape its operations, whether for good or evil.

To keep giving of one's best, to be constantly bettering one's self is to prepare for greater and fuller opportunities to come. They may not always be apparent in the immediate scene; indeed, the immediate outlook may be seemingly discouraging, but one may take strength in the knowledge that effort and productivity are inevitably rewarded. The accounts we build up by patient industry over the years always pay interest.

• This Department is dedicated to serve men in building up a reserve through every known means that will create stability—bringing the comforts and joys of life—and happiness.

It's our contribution, too, toward the firming of the foundation of our economy so that we will retain our status as free men and women in a new world.

To you, our subscribers, we extend an opportunity to assist in spreading this doctrine toward security and right thinking—in the schools and universities, and in your own homes and offices.

We are happy to cooperate and serve.

C. G. Wyckoff, Publisher.

THE FEDERAL ESTATE *Tax*

By EDWIN A. MULLER

Among a number of inquiries from our readers have been some requesting information of one kind or another with regard to "inheritance taxes", sometimes called "death taxes". In preceding articles we have dealt with various forms of insurance as contracts, and also discussed the tax treatment of these policies under varied circumstances. I feel it is important for our readers who are, or may be subject to both estate and income taxes to know more about basic tax principles, particularly so that they may act as a guide in taking care of their own affairs in a most satisfactory way. The Federal Estate Tax, oft'times called the "inheritance tax", is one which is levied by the United States Government on the transfer of property of a person at the time of his death. There is no set formula that can be set up with reference to the matter of taxes. However, it is suggested that a competent Tax Attorney, possibly accountant or Life Underwriter be consulted in order to obtain the most competent advice possible.

Minimizing Estate Taxes

It is a known fact that most people procrastinate in many things, such as the acquisition of adequate Life Insurance, making of a will and finally provision for Estate Taxes. Since these involve matters contingent on death, such matters seem remote and daily problems of one kind or another are given precedence. However, such postponement only may mean costly and burdensome administration of one's Estate later. Since every effort has, and is being exerted by an individual to acquire and build an Estate it is his duty also to preserve as much of it as a net Estate of his heirs, particularly by minimizing Estate taxes, whenever this can be legally and consistently effected.

In determining the value of the gross Estate of a decedent at the time of his death the following is included. (1) His interest in property of any kind. (2) Any interest in property of which he has made a transfer in contemplation of death, or to take effect in possession or enjoyment at or after death, and (3) proceeds of "Life Insurance" policies owned by decedent or on which he is paying premiums.

A decedent's interest in property includes, (a) the value of any joint property held by him and another and payable to the survivor, if said property originally belonged to decedent. If, however, the whole or part of the property originally belonged to the survivor, then the part shown to have originally belonged to the survivor, is excluded. (b) The entire amount of any community property held by decedent and surviving spouse, except such part as was derived from compensation for personal services actually rendered by the surviving spouse, but in no case shall such community property interest included in decedent's gross estate be less than the value of the community property over which he has testamentary disposition (that is distribution by means of a will), (c) the value of any property over which the decedent had a power of appointment.

Determining Decedent's Estate

The value of the net estate of a decendent is determined by deducting from the value of his gross estate, (a) an exemption of $60,000, (b) funeral and administration expenses, debts and taxes accrued before his death, which would not include estate or inheritance taxes nor income taxes on income received after his death, (c) the value of any bequests for public, charitable or religious uses (as defined in the law). (d) identifiable property which previously has been taxed as part of the estate of a person who died within five years prior to decedent's death, or which was transferred to decedent by gift within five years prior to his death on which a gift tax was paid—this deduction is limited to the value which the property had for purposes of the prior estate tax or the value which was actually subject to prior gift tax and cannot in any event exceed the value of such property included in decedent's gross estate, (e) a credit on account of any gift tax paid on any property of which the decedent made a gift, but which property is nevertheless included in his estate because the gift was in contemplation of death.

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THE F.H.A. PLAN For G. I.'s

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By NATHANIEL M. GIFFEN, JR.

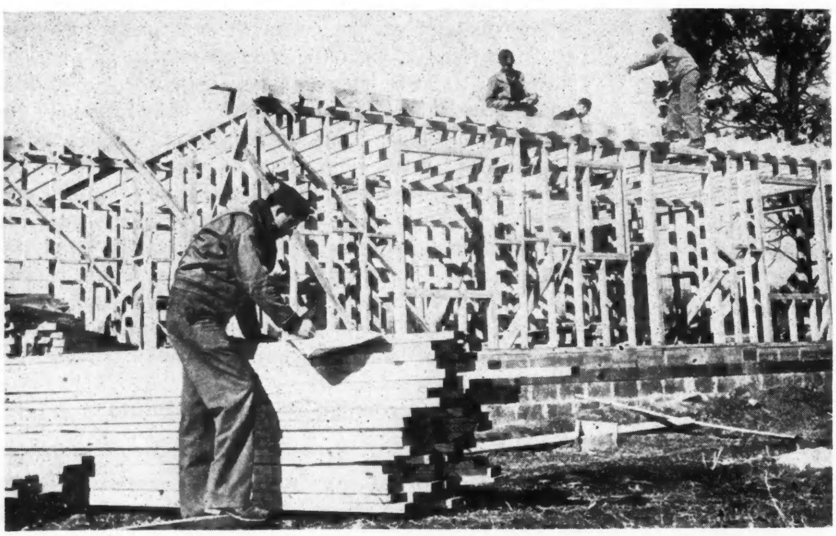


Photo by Press Association

Investing in one's own home is a transaction requiring careful prior investigation to insure maximum satisfaction.

"How does the F.H.A. participate in the G.I. home loan program?" This is another important query raised by homeseeking Veterans. In this series of articles we have limited our discussion to the "single loans" advanced by lending institutions with the Veterans Administration guarantee (or insurance) protection. This single loan plan has been most popular in the rapidly expanding G.I. Home Loan Program. And, an attempt will be made to explain this preference over the FHA plan in the following paragraphs.

In view of the fact that the F.H.A. plan offers the lender 100% insurance against loss, the Veteran undoubtedly will be confronted to some extent with this plan while endeavoring to finance a home. Two loans are involved a first mortgage fully insured against loss by the Federal Housing Administration plus a secondary loan fully guaranteed against loss by the Veterans Administration. Except for some extra work in processing, this plan is basically a very sound transaction for the lending institution. Both loans are advanced by the lender concurrently and both loans are fully protected for the lender's benefit.

There are, however, some disadvantages for the Veteran borrower. First, a higher monthly interest charge is payable. Although he may obtain an F.H.A. interest rate of 4%, the ex-G.I. also is responsible for payment of a ½ of 1% insurance premium (to protect the lender) on the first mortgage. The second loan, being a G.I. guaranteed loan, is limited to a maximum 4% interest charge. Accordingly, the former soldier would be paying about 4½% on the largest part of his debt. A G.I. borrower requiring 100% financing of a home (existing construction for example) would be advanced an $8,000 first loan (F.H.A. insured) and a $2,000 second loan (Veterans Administration guaranteed). The latter usually is considered "the substitute" for the customary 20% cash down payment. Therefore, the mortgagor would be liable for a 4½% charge on the $8,000 and only benefit by the 4% rate for the $2,000 loan.

There also are disadvantages under this "two loan plan" for the borrower in the amount of monthly carrying charges. This is a vital consideration as financial institutions find that most veterans need the most liberal repayment terms. The difference of a comparatively few dollars in a monthly payment can cause disqualification for lack of adequate income to carry the payments and actually prevent the ex-G.I. from obtaining a home loan. On the basis of an example appearing in National Housing Agency literature which outlines a $10,000 F.H.A. loan repayment plan, we find a $10.32 spread between the F.H.A. (double loan plan) payment and the more common guarantee plan (single loan) monthly payment. The former is $63.12 and the latter is $52.80. Considering present day living expenses, this is a serious gap. Former servicemen who utilized this plan are obligated for a monthly payment of $63.12 for 20 years (covering both loans). This will retire the first loan at the expiration of the 20 year period. Then payments of $5.28 (*Please turn to page* 298)

Answers to . . . .

INSURANCE INQUIRIES

By The INSURANCE EDITOR

Annuity and Contract Terms

Insurance Editor:

I have read your articles and answers to insurance inquiries with great interest and have found them very helpful. May I ask you to inform me on the following:

(1) *What would be my monthly income if I purchased a $10,000 annuity now, age 63, with the payments commencing as soon as the transaction has been consumated? What would be my income if the payments were deferred till I am 65? What would be my income if I purchased the annuity at age 65, the payments to begin then? Please give me the figures on both the refund and non-refund basis.*

(2) *In the January 19the issue you give a detailed example of conversion of life insurance into annuity, in which you show a different income depending on the number of years for which the payments would be guaranteed. The wording "for life guaranteed at least for 10, 15, or 20 years" is not entirely clear to me. Does it mean that if the annuitant lived beyond the number of years specified in the contract for a certain monthly income he would receive no further payments, or do the words "at least" make it compulsory for the insurance company to continue the payments for a given length of time beyond the guaranteed years? Please confirm my understanding that this qualification of "for life" is found only in annuities contracts converted from life insurance contracts and that the monthly income specified in an original single premium annuity contract* is payable for the life of the annuitant, regardless of the age he attains.

(3) *I recently read an article "Legal Confiscation of Savings—The Actuarial Offensive Against Policyholders," by E. Albert Gilbert, in the March issue of "Your Investments" on the Mahoney bill, which seeks to amend the insurance law so as to reduce the loan and cash surrender values, and should like very much to have your opinion on whether it would be legal for the insurance companies to withhold from the policyholder any monies accrued to the policy before the passage of this bill, if it should pass. It seems to me that this would be a breach of contract for which they could be sued and that no insurance legislation that would confiscate any part of the earned reserve of a policy could be valid.*

I shall greatly appreciate your giving me whatever information you can on these three points.

—*J.T., Hayden, Ariz.*

WITH respect to the questions asked in the first paragraph of your letter I would advise as follows: A Single Premium payment of $10,000 would purchase a monthly income of $50.30 for life without refund or $41.00 monthly with refund continuing the instalments to the beneficiary in event death occurs before the purchase price has been returned, until the Company has paid out a total amount exactly equal to the purchase price. Likewise a deposit of $10,000 with income to commence at age 65 would return $57.07 monthly without refund or $43.60 Monthly on a Cash Refund Basis, that is if death occurs before the purchase price is returned the company will pay the beneficiary the balance in a lump sum.

You also ask what your income would be if the Annuity were purchased at age 65. This is difficult to state since any quotations made today may not hold when you attain age 65. Life Insurance Companies over the past few years have radically changed their rates. The only way to guarantee yourself a rate would be to establish the Annuity Contract today payable when you attain age 65, if that is the age at which you wish income to commence.

Answering the second paragraph of your letter the guaranteed period of ten, fifteen or twenty years mentioned in my article in the January 19th issue, simply means that the Company is obliged to pay income equivalent for at least ten, fifteen or twenty years whether the recipient lives or not. In other words, if a contract were established on the twenty year guaranteed basis, and the annuitant died at the end of ten years the Insurance Company still would be obliged to pay an additional ten years income to a named beneficiary. In any event, the income under the contract is payable at all times for the life of the annuitant regardless of age attained.

Concerning the third paragraph of your letter it can generally be stated that contracts already in force are not subject to any modification retroactively.

Annuity versus Endowment Program

Insurance Editor:

I was born March 23, 1878 therefore I am now 68 past.

I am not to well trained in Financial Matters but I am wondering if I could buy myself an endowment will say pay approximately $20,000 all at once and receive in return monthly or quarterly check for an even 20 years and even amount during these 20 years. For example I borrow $20,000 from Federal Land Bank, pay principal with interest semi-annually or annually always same amount during the life of my mortgage.

Is this possible with any company?

To me my plan would leave out the speculation of early or late death.

It looks to me it would not matter whether I was only 20 or 120 years young or old. I can see if not mistaken where it could simplify my Estate in case of early death. I don't know if permissible to point out companys with the best bargains.

—*A.V., Manistique, Mich.*

In studying the text of your letter I imagine that you are considering what is known as an Annuity Contract rather than an Endowment Contract, which is a Life Policy.

At your present age 68 an Endowment Policy would not provide the benefits you are seeking. You can obtain with any one of a number of life insurance companies a con. (*Please turn to page 307*)

★ ★ ★

FOR

PROFIT

AND

INCOME

★ ★ ★

The Odds

As we write this it looks as if the seasonal summer rise had already got under way, beating the gun by taking off before the end of May. Industrial stock prices, measured by any of the daily averages or indexes, have bettered the previous high by a decisive margin. The rails act like a "confirmation" is imminent, which is all the Dow-Theory bulls have been waiting for. The end-of-May level in the Dow industrial average has been topped at some time in July or August in each of the last 15 years, and in 42 out of the last 49 years. The 7 exceptions occurred in bear-market years. From this consistent record, the odds seem to favor speculation in the good old summer time.

Coming Back?

The turnover on the New York Stock Exchange recently has risen to well above the 2-million-shares a day level; and a goodly number of low-price stocks are again making new bull-market highs. Is the general public—which before the February spill was showing more interest in stocks than at any time since 1929 — again coming back in, with its nerve restored and appetite revived? It looks that way. Money, as plentiful as ever, is once more burning some pockets. Of course, there are no actually-cheap low-price stocks left in this fifth year of the bull market; but everything is relative, including the value of money, which is to say that among the dogs there are wide variations in quality. If the writer were buying low-price stocks — with your money — today's choices (with fingers crossed and a prayer) would include Niagara Hudson Power, Columbia Gas & Electric, Federal Motor Truck, Central Foundry and Sun Chemical. Don't ask for something under $10 a share. All that's left down there are the extreme mongrels, with the mange.

Shifting Selectivity

On balance, consumer-goods stocks are somewhat less in the limelight in the present renewed market rise than they had been previously, while heavy-industry stocks reflect improved demand. It is questionable whether the former, in any number, have topped out for keeps. However, rotating leadership is a familiar bull-market phenomenon; and it was time to rotate. The light-industry groups, having been all the rage for months, could do with a resting phase. Late May found the erstwhile laggards in steel, automotive lines, copper, rails and rail equipment in the stronger technical position.

Some Choices

Assuming that the new pattern of selectivity can continue for a time—perhaps for much of the remainder of the bull market—some speculative choices of merit

Increases Shown in Recent Earnings Reports

		Latest Period	Year Ago
Bangor & Aroostock R.R.	4 mos. April 30	$3.84	$2.57
Brown Shoe	6 mos. April 30	1.96	.89
City Ice & Fuel	4 mos. April 30	.89	.35
Detroit Edison	12 mos. April 30	1.33	1.04
Federal Light & Traction	12 mos. March 31	1.58	1.45
General Shoe	6 mos. April 30	2.04	.84
Greyhound Corp. Sys.	March 31 quar.	1.21	.54
McIntyre Porcupine Mines	Year March 31	3.12	2.95
Montgomery Ward	April 30 quar.	2.57	.83
Sterling, Inc.	March 31 quar.	.42	.11

would include (by no means exclusively) Allegheny Ludlum Steel, Bethlehem Steel, Byron Jackson, Ex-Cello-O, Studebaker, American Car & Foundry, Lima Locomotive, Phelps Dodge, Southern Railway, Southern Pacific and the Milwaukee.

Auto Accessories

Earnings of auto accessory companies will be poor for the first half-year, but should rise sharply thereafter if labor—as well as the government and the public—gets sufficiently fed up with strikes to permit high production with fewer and shorter interruptions. The underlying economic fact is an unprecedented need and demand for cars. It is impossible for us to believe that it will not be satisfied. It is hard—but not quite impossible—for us to believe that the makers will fail to make excellent profits, under present advanced OPA prices, once they get high volume. Nor do we see much risk of a renewed squeeze, for the time has gone by when OPA could get away with ignoring wage boosts or other hiked-up costs. Some auto parts stocks had begun to reflect a quietly improving investment and speculative demand even before last week's general market upsurge. This department is partial to Borg-Warner, Briggs & Stratton, Electric Auto Lite and Thompson Products among the better-grade issues; and to Budd Wheel, Motor Wheel, Houdaille-Hershey and Motor Products among the more speculative equities.

Don't Forget

There are fat earnings this year in such lines as retail trade, textiles, chemicals, drugs and proprietary products, liquor, rubber goods, motion pictures, etc. Dividends have been raised in many cases and more increases are to come, but, by and large, directorates are not handing out the cash with exactly a lavish hand. Indeed, in light-industry generally the present ratio of dividends to earnings is much below that of such prewar years as 1936-1937. That is absurdly so in many retail trade situations. We could cite a number in which prevailing dividend rates are less than 25% of indicated current earning power. It would appear that the managements are overly conservative or doubt that high earnings will continue much beyond this year. However, earnings at least big enough to pay dividends much above current rates can logically be anticipated for the duration of the general postwar boom, and the end of that certainly is not in sight. Consumer needs are too great, and consumer money too plentiful. Don't forget, moreover, that managements may not have the final say on dividends. Under the prevailing tax law the Treasury has discretionary power to put a heavy penalty on undistributed profits if dividends appear unduly low in ratio to such profits. We doubt that highly prosperous consumer-goods companies can "get away" with dividends as low as are now being paid in many instances. Application of the penalty tax, or anticipation of it, could force some radical dividend increases before this year is out. That is definitely a market consideration in debating the matter of selectivity, for stocks nearly always respond more dynamically to good dividends than to good undistributed earnings.

Nevertheless

Nevertheless the wisest attitude to take now toward consumer-goods stocks which have had a huge rise—and we are thinking most specifically of retail trade equities—is a matter of valid debate, far from one-sided. Present merchandising profit margins are "out of this world." Some analysts are firmly convinced that these stocks, in the main, will see their bull-market highs this year, perhaps this summer. Others merely say "they are well along," oppose new buying but advise continued retention. This column is in the position of having recommended many retail stocks at prices far under those now prevailing. It can not yet take a bearish view on any of them—but discretion is the better part of valor. Probably a major part—maybe even the "cream"—of their maximum advance has been seen. Where there are big profits in a debatable situation, what's the matter with taking down and salting away part of them? It might be a bit premature, but that is better than waiting too long and expecting too much. It has been aptly said that a bull or bear might make market money but a hog will always lose. Accordingly, this department now advises you to clinch a third to a half of the profits established on retail stocks heretofore bought on its suggestions and generally accurate earnings forecast.

Farm Equipments

Held back by strikes so far this year, volume and earnings in farm equipment should reach high levels during the second half-year. It is believed that the industry's sales in the 1946-1947 fiscal year may set a new record around $1 billion. On its cus-

(*Please turn to page* 308)

Declines Shown in Recent Earnings Reports

		Latest Period	Year Ago
Addresso-Multigraph	12 mos. April 30	$1.58	$1.63
Anaconda Wire & Cable	March 31 quar.	.01	.65
California Packing	Year Feb. 28	2.57	2.95
El Paso Natural Gas	12 mos. March 31	3.46	3.62
General Amer. Transp.	March 31 quar.	.47	.80
Hudson Motor Car	March 31 quar.	.09	.27
Illinois Central R.R. Sys.	4 mos. April 30	1.31	4.86
Link Belt	March 31 quar.	.46	.60
Thermoid	March 31 quar.	.01	.44
Universal-Cyclops Steel	March 31 quar.	.28	.44

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* **answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:**

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Virginia-Carolina Chemical, Pfd.

Virginia-Carolina Chemical, Pfd., is selling slightly below the cumulative arrears on this stock. It appears to me it has good speculative prospects. What is your opinion?

—*C. B., Poughkeepsie, N. Y.*

Virginia - Carolina Chemical Corp. is about the fourth largest fertilizer producer. Around 80% of its sales are in the South and the principal customers are cotton and tobacco growers. Large phosphate rock deposits in Florida are held in reserve. On May 31, 1945, the company acquired by purchase for cash 99.335% of the outstanding capital stock and all of the outstanding 6% convertible debentures of the Phosphate Mining Co., the total cash expenditure requiring $2,845,068, all of which was supplied from the current working capital of the corporation. This acquisition of the Phosphate Mining Co. was to assure a continuing and economical supply of phosphate rock, one of the most important fertilizer raw materials. Most of the company's 37 plants, having a total annual capacity of 860,000 tons of finished fertilizer, are scattered through the South, although plants in Indiana, Ohio and Illinois supply dealers in the Mid-western states.

The acquisition of the securities of the Phosphate Mining Co. is reflected on a consolidated basis in the corporation's consolidated balance sheet as of June 30, 1945. The company showed a good financial condition at that time, with total current assets of $18,696,389 as compared with total current liabilities of $3,454,637, a ratio of better than 5 to 1. Cash and government securities totaled $9,760,145, and, alone, were nearly three times total current liabilities. In addition to the $1,750,000 notes the company has 215,052 shares of 6% cumulative dividend participating preferred stock outstanding entitled to $105 per share plus accumulated dividends in the event of voluntary dissolution or liquidation, and 486,122 shares of common stock. Total assets of company amounted to $33,385,844. Net current assets after deducting total current liabilities and notes payable to banks, amounted to $13,500,000 equivalent to approximately $63 per share of preferred stock and does not give any effect to property, plant and equipment which, after reserves for depletion and depreciation is carried on the company's balance sheet at $12,709,773.

The company paid $3.00 on August 24, 1945 on account of arrears which on April 1946 amounted to $94 a share. Improvement in profits for the fiscal year ending June 30, 1946, is expected from the $4.49 per share preferred shown for the year ended June 30, 1945. Payment against arrears should be more liberal and a *recapitulation may become feasible.*

For the year ended June 30, 1945, provisions for the excess profit tax amounted to $1,228,000, *equivalent to* $5.75 *per share of preferred stock.* With the elimination of the excess profit tax on January 1st, plus the fact that sales are expected to rise sharply in the coming months, dividend requirements on the preferred stock should be covered by a much better margin. The preferred stock is listed on the New York Stock Exchange and recently sold at 90. Due to the improved outlook for earnings and the company's strong working capital position, the preferred stock, while speculative, has possibilities for further appreciation.

Fairchild Engine & Airplane Corp.

Will you give me some information on Fairchild Engine & Airplane Corp. as to earnings, financial position and outlook?

—*R. C., Albany, N. Y.*

Sales in 1945 for Fairchild's Engine & Airplane Corp. totaled $41,831,481, compared with $93,212,963 in 1944. Net income for 1945, after $637,509 of Federal taxes less postwar refunds, amounted to $688,034, equal to 34 cents a share on 1,815,787 common shares. This compares with the 1944 net of $1,173,123 or $1.12 each on the 1,042,735 common shares, and represents 1.6% of sales compared with 1.2% in 1944.

The backlog of unfilled orders on March 31st, last, of $72,500,000, com- (*Turn to page* 308)

Keeping Abreast of Industrial and Company News

Penetrating the gloom engendered by labor and pricing problems throughout industry are refreshing indications that American business management still retains its characteristic resiliency in the face of all temporary obstacles.

Such courageous forward planning was evident in the recent announcement of President T. H. Barton that Lion Oil Company has leased the huge Ozark Ordnance Works located near Eldorado, Arkansas on a long term basis. The leased plant is rated as one of the largest and most economical of its kind in the United States with an annual productive capacity of 165 thousand tons of ammonium nitrate and 90 thousand tons of anhydrous ammonia.

Plans for enlarged participation in the growing demand for air transportation are materializing rapidly for Transcontinental & Western Air, Inc. This week President Jack Frye announces the sale of $10 million 5-year serial debentures to Equitable Life Assurance Society to finance the purchase of thirteen additional Constellation planes, bringing the total fleet now in service, or on order, to forty-eight.

Thomas D. Jolly, Vice President of The Aluminum Company of America announces plans for a new $30 million rolling mill capable of producing more than 10 million pounds of wider sheet and plate annually than is now available anywhere. The mill, located in Davenport, Iowa, is designed to supply aluminum plate in sizes suitable for the growing demand of the shipbuilding industry for the light metal.

The Kaiser Special, a new model automobile employing a conventional rear-wheel drive, is on the assembly lines of the Kaiser-Frazer Corp. according to Henry J. Kaiser, Chairman, and should be in volume production this summer. The previously introduced "Kaiser", a car with a front-wheel drive "will follow at a later date".

Investors soon will have a new vehicle for investing in the department store field. Walter Hoving, former president of Lord & Taylor has formed the Hoving Corporation with an authorized capital of 2 million shares of $1 par to own and operate well-known department and specialty stores throughout the United States.

Orville S. Caesar has been elected president of Greyhound Corporation succeeding Ex-President C. E. Wickman who now becomes chairman of the board. Of further interest to stockholders is a proposed three-for-one splitup of the common stock to be voted upon at a special meeting called for July 9.

Combined domestic and foreign demand for locomotives and parts is more than compensating for cancellation of war contracts in the case of American Locomotive Company. According to disclosures made by R. B. McColl, President, the company's present backlog of orders now exceeds $100 million or about three times the total of war contract cancellations last year.

American Can Company expects to have terminated by June 30 the last of its war contracts which now involve less than one-half million of the $300 million of wartime manufactures undertaken by the parent company in addition to torpedo and ammunition container production in subsidiary plants.

Among some of the newer adaptions of the light metal magnesium are lighter and safer rungs for fireman's ladders, portable dock loading boards replacing the much heavier steel product, an automobile motor cooling fan of cast-magnesium embracing important power savings and push-button operated Pullman beds with lightweight magnesium frames. The Dow Chemical Company has cooperated in the design of many of these innovations.

Cuban Sugar producers are agreeable to selling the next two crops to the United States at 3.67 1/2 cents a pound with some provision for an escape clause on the 1947 crop to allow for any inflationary rise in the cost of American goods and commodities purchased by Cuba in this country.

Holders of Brown-Forman Distillers Corp. common stock will find President W. L. Lyons Brown's announcement of a proposed 100% stock dividend pleasing in view of the company's intention to continue the 80 cents dividend as long as earnings justify. Stockholders will be asked to vote on the proposal on July 23.

Budd Company, proposed successor through merger to Edward G. Budd Mfg. Co. and Budd Wheel Co. plans to increase its authorized common stock to 4 million shares from 2.25 million and its long term debt by $5 million. Stockholders of record June 21 will receive rights to subscribe to new common on a one for five basis. The new money will be used for plant expansion and working capital.

Sometime in the middle of June stockholders of Allied Stores Corp. will receive subscription rights to new common stock on the basis of new share for each seven held. The issuance of 257,840 additional shares has already been authorized for the purpose.

The affairs of Standard Gas & Electric Company moved nearer final settlement this week as 312,000 shares of its subsidiary California-Oregon Power Company were registered with the SEC for sale. The anticipated $12 million proceeds will be applied against bank loans as was done with the $9 million recently derived from the sale of Pacific Gas & Electric Company common.

R. J. Cullen, chairman of International Paper Company has announced the company's offer to exchange one share of Senior $4 Preferred Stock and 1/4 share of Common Stock for each share of 5% Cumulative Convertible Preferred stock. The offer expires July 1.

According to Ralph A. Parker, regional director of the Civilian Production Administration the construction industry has received another setback as a result of the adverse effect of the railroad and coal strikes. Mr. Parker advised the New York Building Congress that building authorizations in the New York area have been reduced to one-third of the mid-May rate, because of material shortages.

General Instrument Corp. and Emerson Radio & Phonograph Corp. are to be merged into a new company to be known as Emerson Radio & Phonograph Corp. Capital of the new company will consist of 1,126,858 shares. Emerson shareholders will receive 1.6 shares for each share now held; and General Instrument holders will exchange share for share. The new stock is expected to maintain a 15 cent quarterly dividend rate.

What looks like an interesting effect of the widespread strikes among suppliers of automobile parts and materials is the announced intention of General Motors Corporation to produce certain types of castings now unavailable from suppliers. Strikes in other industries have materially retarded automobile production in the opinion of Alfred P. Sloan, Jr., Chairman.

The Hudson Motor Car Company is offering its stockholders the right to subscribe to 226,973 shares of new stock on the basis of one share for each seven shares held. The subscription rights, which permit purchase at $22 a share, expire June 2.

Directors of Canada Dry Ginger Ale, Inc. have approved a plan to split the common stock three for one. Stockholders will meet July 17 to vote on the proposal, which provides for an increase in the number of shares authorized from 1 million to 3 million.

The BUSINESS ANALYST

SUMMARY

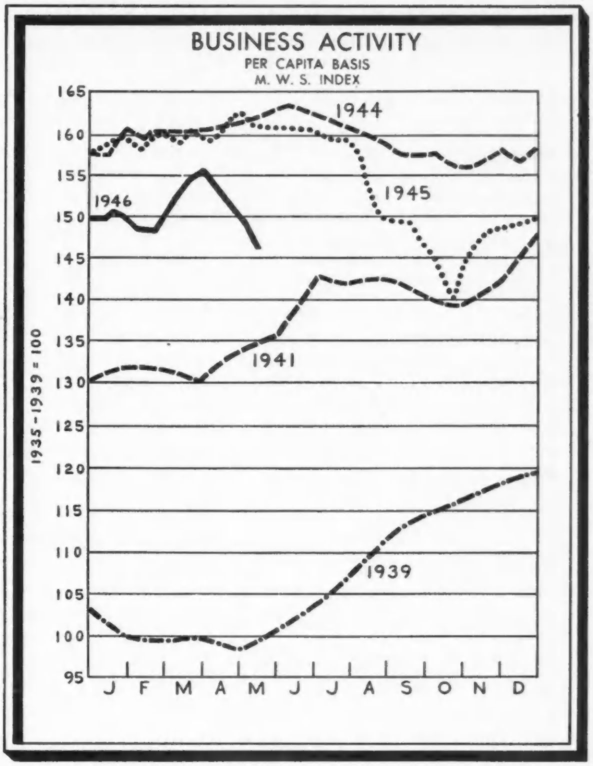
MONEY AND CREDIT—Commercial banking resources reached a new all-time high of $177.4 billion on Dec. 31, last year—more than twice the $85 billion reported at the end of 1940. Meanwhile bank capital accounts have increased only 27%, to $10.6 billion. Treasury will redeem out of its cash holdings an additional $3,854,500,400 of Government securities by June 15, thereby effecting a total reduction of $10,212,500,000 in the Federal gross debt since Mar. 1, at an annual saving of $145,000,000 in interest.

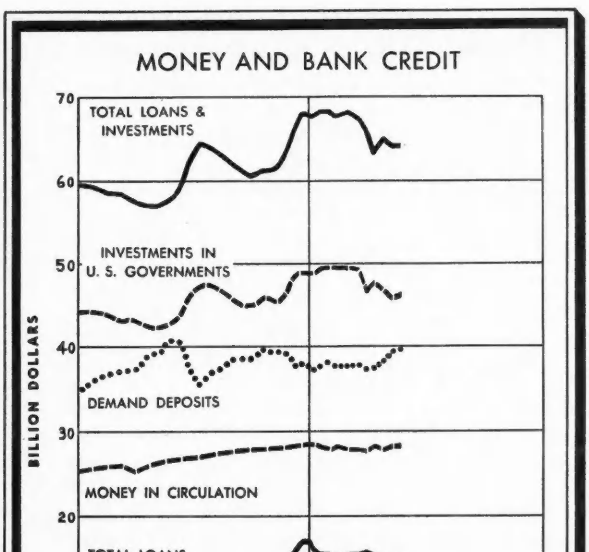
TRADE—Department store sales in week ended May 11 were 39% ahead of last year, against cumulative increase of "only" 25% for year to date. Public, however, is becoming more choosey over quality and price.

INDUSTRY—Two months of strikes have brought business activity down nearly 7% to a level almost 10% below last year at this time. In face of many obstacles, reconversion has made miraculous progress. March dividends 2.1% above last year.

COMMODITIES—Commodity price indexes, spot and futures, reach new highs since 1926. Grain shipments far below last year. Government now holds only 15% of total cotton stocks, against 59% a year ago. Grain crops may exceed Government estimates.

* * *





Two months of the soft coal strike, along with two brief railroad strikes and numerous lesser work stoppages, have caused a decline of nearly 7% in **Business Activity**, down to a level almost 10% below last year at this time. For the month of May, this publication's index of business activity slumped to 159.3% of the 1935-9 average, from 164.4 in April, showing a decline of nearly 9% below May, 1945. On a per capita basis, our business index for May was 146.5% of the 1935-9 average, compared with 151.3 in April and 161.6 for May of last year.

* * *

Prior to the 1929-32 debacle, a recession of the present magnitude used to be characterized as a major business depression; but in these days of labor rule it is looked upon as a mere incident.

* * *

If there is anyone who thinks people are unduly alarmed over the present labor crisis let him look at **Department Store Sales** for the week ended May 11, which were 39% ahead of the like period last year, compared with a cumulative increase of "only" 25% for the year to date.

* * *

Even **Dividend Payments** in March were 2.1% more liberal than a year earlier; but the catch here is that they were declared for the most part out of last year's earnings.

* * *

In face of almost superhuman obstacles, **Reconversion**

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	May 22	0.43	0.48	1.87	0.43
Cumulative from Mid-1940	May 22	335.9	335.5	280.1	14.3
FEDERAL GROSS DEBT—$b	May 22	272.4	272.4	236.9	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	May 22	38.7	38.3	40.5	24.3
Currency in Circulation	May 22	28.0	28.0	26.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	May 22	7.33	7.43	6.29	3.92
100 Other Cities—$b	May 22	8.14	8.16	7.85	5.57
INCOME PAYMENTS—$b (cd)	Mar.	13.09	12.07	13.69	8.11
Salaries & Wages (cd)	Mar.	8.27	8.04	9.59	5.56
Interest & Dividends (cd)	Mar.	1.38	0.52	1.34	0.55
Farm Marketing Income (ag)	Mar.	1.32	1.38	1.38	1.21
Includ'g Govt. Payments (ag)	Mar.	1.38	1.45	1.44	1.28
CIVILIAN EMPLOYMENT (cb) m	Apr.	54.6	53.0	52.8	52.6
Agricultural Employment (cb)	Mar.	7.6	7.0	7.9	8.9
Employees, Manufacturing (lb)	Mar.	11.7	11.3	15.4	13.8
Employees, Government (lb)	Mar.	5.5	5.4	6.0	4.6
UNEMPLOYMENT (cb) m	Apr.	2.3	2.7	0.7	3.4
FACTORY EMPLOYMENT (lb4)	Mar.	127	122	166	147
Durable Goods	Mar.	133	122	223	175
Non-Durable Goods	Mar.	122	122	121	123
FACTORY PAYROLLS (lb)4	Mar.	232	210	342	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Feb.	40.5	41.0	45.4	40.3
Hourly Wage (cents)	Feb.	100.2	100.3	104.3	78.1
Weekly Wage ($)	Feb.	40.60	41.14	47.37	31.79
PRICES—Wholesale (lb2)	May 18	110.9	110.1	105.8	92.2
Retail (cdlb)	Mar.	143.4	142.7	139.6	116.2
COST OF LIVING (lb3)	Mar.	130.2	129.6	126.8	110.2
Food	Mar.	140.1	139.6	135.9	113.1
Clothing	Mar.	153.1	150.5	143.7	113.8
Rent	Mar.	108.4	108.3	108.3	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Mar.	7.19	6.21	6.32	4.72
Durable Goods	Mar.	1.12	0.96	0.85	1.14
Non-Durable Goods	Mar.	6.07	5.25	5.47	3.58
Dep't Store Sales (mrb)	Mar.	0.68	0.54	0.50	0.40
Retail Sales Credit, End Mo. (rb2)	Mar.	2.88	2.52	2.40	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Mar.	192	186	252	181
Durable Goods	Mar.	203	182	351	221
Non-Durable Goods	Mar.	185	189	192	157
Shipment (cd2)—Total	Mar.	196	182	281	183
Durable Goods	Mar.	180	152	382	220
Non-Durable Goods	Mar.	207	202	210	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Mar.	27.5	27.0	26.7	26.7
Manufacturers'	Mar.	16.7	16.6	16.4	15.2
Wholesalers'	Mar.	4.3	4.2	3.9	4.6
Retailers'	Mar.	6.5	6.2	6.4	7.2
Dept. Store Stocks (rb)—I	Mar.	177	171	157	139

PRESENT POSITION AND OUTLOOK

(Continued from page 293)

in the United States has made miraculous progress under our system of private enterprise. Up to the time of the coal strike, production of non-durable goods had recovered almost to its all-time peak; construction contracts had reached a new all-time high, with residential awards far ahead of their 1925 peak; production of radios, laundry equipment, vacuum cleaners, shoes, tires, men's shorts and wool suits, were near or above the 1940-1 monthly average. North American output of **Newsprint** in April was the largest for any like month in history.

* * *

Production of automobiles, however, along with sewing machines and refrigerators, has been greatly retarded by strikes or by shortages of key materials and parts—particularly lumber, tin and small motors.

* * *

The Treasury announces that it will redeem an additional $3,854,500,400 of Government securities by June 15, thereby effecting a total reduction of $10,212,500,000 in the **Federal Gross Debt** since Mar. 1, and an annual saving of $145,000,000 in interest payments. On June 15, the Federal gross debt will thus have been reduced to about $269 billion, and the Treasury's cash balance to around $15 billion.

* * *

A brief flurry in Government bonds was produced since our last issue by a new Treasury regulation permitting commercial banks to purchase a limited amount of restricted issues for trading purposes. In some measure this will tend to compensate the banks for the recent withdrawal of the ½% preferential discount rate on Government securities.

* * *

Banking Resources of all commercial banks in the U. S. reached a new high at $177.4 billion on Dec. 31, 1945—more than twice the $85 billion reported for the end of 1940. During the same five-year period, total **Deposits** expanded to $165.6 billion, from $76 billion; but bank capital accounts increased only $2.2 billion (27%) to $10.6 billion. **Retail Prices,** which have risen only 42% during the past five years, still have a long way to go to catch up with the 109% inflation in bank deposits.

* * *

As usually happens, the demoralizing influence of war and its inflationary aftermath has atomized society into an anarchistic conglomeration

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	May 18	146.0	147.6	161.5	141.8
(M. W. S.)—I—np	May 18	158.8	160.4	173.7	146.5
INDUSTRIAL PROD. (rb)—I—np	Apr.	164	168	230	174
Mining	Apr.	103	138	140	133
Durable Goods, Mfr.	Apr.	187	182	336	215
Non-Durable Goods, Mfr.	Apr.	164	165	174	141
CARLOADINGS—t—Total	May 18	688	671	869	833
Manufactures & Miscellaneous	May 18	307	389	405	379
Mdse. L. C. L.	May 18	119	127	108	156
Grain	May 18	42	41	53	43
ELEC. POWER Output (Kw.H.)m	May 18	3,939	3,911	4,377	3,267
SOFT COAL, Prod. (st) m	May 18	9.3	0.5	11.2	10.8
Cumulative from Jan. 1	May 18	174	165	227	446
Stocks, End Mo.	Mar.	58.5	51.2	45.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 18	4.8	4.7	4.9	4.1
Gasoline Stocks	May 18	97	98	89	88
Fuel Oil Stocks	May 18	42	41	39	94
Heating Oil Stocks	May 18	32	32	30	55
LUMBER, Prod. (bd. ft.) m	May 18	461	452	529	632
Stocks, End. Mo. (bd. ft.) b	Apr.	2.4	2.3	3.1	12.6
STEEL INGOT PROD. (st.) m	Apr.	5.88	6.51	7.29	6.96
Cumulative from Jan. 1	Apr.	17.6	11.8	28.9	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	May 23	104	138	35	94
Cumulative from Jan. 1	May 23	2,005	1,901	664	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 18	159	156	126	165
U. S. Newsprint Consumption (st)t	Apr.	365	377	290	352
Do., Stocks, End Mo.	Apr.	355	357	445	523
Whiskey Production (tax gals.)m	Mar.	12.9	15.0	0	11.8
Do., Domestic Sales	Mar.	5.6	5.4	4.5	8.1
Do., Stocks, End Mo.	Mar.	365	359	325	506

PRESENT POSITION AND OUTLOOK

of **Primitive Egos**, each grasping for money and power without regard for the welfare of others.

* * *

Speculation is rampant—not only in the black markets, but also in capital assets. Private residences are changing hands at twice pre-war prices. Apartment houses are being bought and then resold piecemeal on a cooperative basis to individual tenants at fabulous profit. Southern cotton mills are being sold to Northerners at profits up to 1,500%, with expectations that they can be repurchased at no more than half the current sales price when the next depression comes.

* * *

Prices of **Farm Acreage** have risen 69%, on an average, since 1939, compared with only 65% in the six years between 1914 and 1920. The advance in farm prices per acre ranges from 25% in Massachusetts to 107% in Kentucky. In the 1914-20 boom the range was from 22% in Montana to 128% in South Carolina. However, as the present inflationary rise started from a lower price level than the spurt after world war I, acreage prices on an average are still 16% below the 1920 peak—ranging from 62% below in North Dakota to 30% above in California.

* * *

Labor dictators are competing with each other for power, in utter contempt for the public. The end can only be State Socialism, unless the public brings overwhelming pressure upon Congress to **Restore Democracy to America**.

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Streeet, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1946 Indexes High	Low	May 18	May 25
300 COMBINED AVERAGE	187.0	164.5	182.9	187.0Z
4 Agricultural Implements	250.9	204.9	234.8	250.9H
11 Aircraft (1927 Cl.—100)	284.4	229.7	234.9	241.7
6 Air Lines (1934 Cl.—100)	1208.6	1023.4	1023.4a	1036.8
5 Amusements	218.6	143.7	212.6	208.8
15 Automobile Accessories	336.2	281.6	290.6	302.5
11 Automobiles	62.2	53.5	54.2	55.9
3 Baking (1926 Cl.—100)	26.0	21.1	22.5	22.8
3 Business Machines	346.4	286.1	337.4	341.9
2 Bus Lines (1926 Cl.—100)	224.3	176.3	219.3	224.3Z
4 Chemicals	286.9	238.3	284.0	286.9R
2 Coal Mining	32.4	26.4	28.9	28.4
4 Communication	99.7	82.0	83.5	84.4
13 Construction	82.0	67.9	81.4	81.8
7 Containers	447.4	384.8	427.8	435.2
8 Copper & Brass	141.8	108.7	128.7	132.2
2 Dairy Products	81.5	64.6	78.7	78.0
5 Department Stores	132.9	89.7	126.9	130.4
5 Drugs & Toilet Articles	277.4	194.8	273.6	269.0
2 Finance Companies	313.9	268.9	303.7	309.4
7 Food Brands	236.4	205.5	229.9	230.5
2 Food Stores	99.4	73.8	98.4	99.4Q
3 Furniture	118.6	105.2	115.7	118.5
3 Gold Mining	1346.1	1093.7	1103.2	1093.7

(Nov. 14, 1936, Cl.—100)	High	Low	May 18	May 25
100 HIGH PRICED STOCKS	110.40	97.62	108.19	110.40Y
100 LOW PRICED STOCKS	247.97	202.59	231.77	237.02
6 Investment Trusts	83.9	70.0	81.7	83.9P
3 Liquor (1927 Cl.—100)	1268.5	1000.2	1235.0	1268.5Z
8 Machinery	206.4	181.6	194.4	200.5
3 Mail Order	206.3	140.3	195.6	196.1
3 Meat Packing	129.1	111.4	122.3	129.1Z
13 Metals, non-Ferrous	299.7	232.1	257.3	263.8
3 Paper	44.0	32.7	41.6	42.4
23 Petroleum	222.9	175.1	218.4	222.9Z
20 Public Utilities	161.6	131.2	155.9	161.6P
5 Radio (1927 Cl.—100)	42.0	33.4	33.8	34.4
8 Railroad Equipment	110.6	94.8	96.7	101.9
22 Railroads	40.8	34.5	35.8	37.8
3 Realty	56.7	39.1	43.4	42.6
2 Shipbuilding	178.8	122.5	155.6	156.8
3 Soft Drinks	621.9	567.9	607.2	621.9Z
12 Steel & Iron	145.6	119.1	135.1	142.1
3 Sugar	88.9	75.7	81.8	82.6
2 Sulphur	285.1	241.7	275.4	285.1R
3 Textiles	188.4	126.7	179.0	188.4Z
3 Tires & Rubber	51.9	42.5	49.4	48.5
5 Tobacco	99.6	86.8	98.6	98.6
2 Variety Stores	396.8	318.5	396.8Z	394.7
18 Unclassified (1945Cl.—100)	115.0	98.2	113.8	115.0A

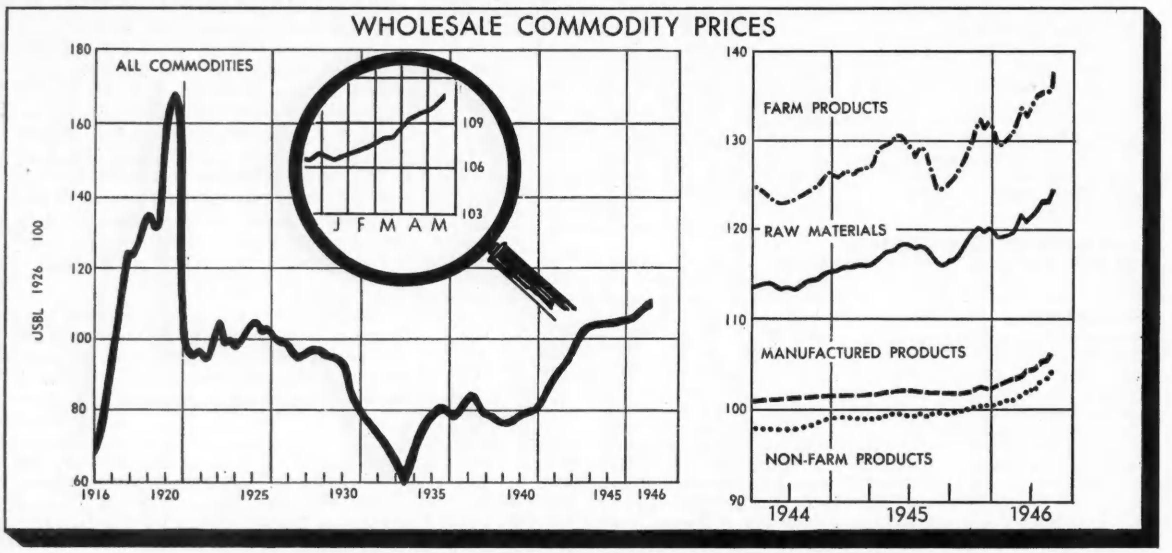
New HIGH since: A—1945; H—1937; P—1931; Q—1930; R—1929; Y—Nov. 14, 1936. Z—New all-time HIGH. a—New LOW since 1945.

Trend of Commodities

In our last issue we stated that the Dow-Jones futures index was in new high ground. This did not show up on the chart, since they have not yet shifted to the new contracts. As soon as this is done, the index will be sharply higher. We are now of the opinion that current prices mark the highest point that will be registered during the next four months. Grain prices are selling at or near the new ceilings, so we cannot have any further advance in this group. Cotton futures are not restricted by ceilings, but they are about 3c a pound above full parity. The new crop season for all agricultural products will be under way shortly and this should result in some hedge pressure.

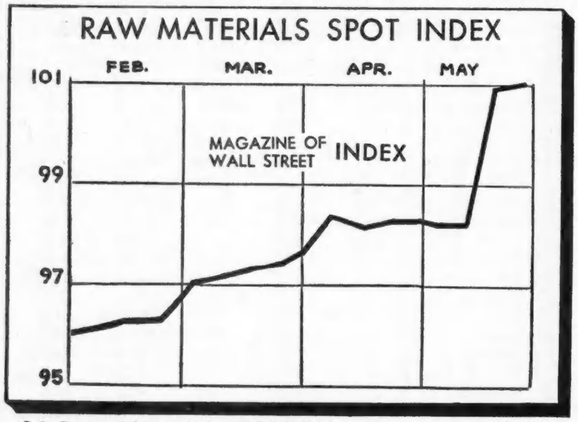
The spot commodity index is in new high ground. Import commodities which had remained unchanged for several weeks advanced more than a point. The weekly index of the Bureau of Labor Statistics crossed the 111 level and, as we stated before, is headed for the 1920 peak. An important feature in the index this week is the sharp advance in farm prices, due to the increase in the grain ceilings. The spread between farm prices and industrial commodity prices, which was already abnormally wide, has widened further. It now appears certain that the peak of this spread is being seen and that some correction will be witnessed in the next 90 days.

The Administration has failed to take any positive action to halt the upward spiral in commodity prices. The coal strike and the railroad strike have set the recovery back at least 60 days. The Senate took some favorable action in cutting the subsidy funds in half, but this will be reflected primarily in still higher prices for foods. Production and only production can keep prices from advancing up to the 1920 peak. There will be no major reversal in trend during 1946.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

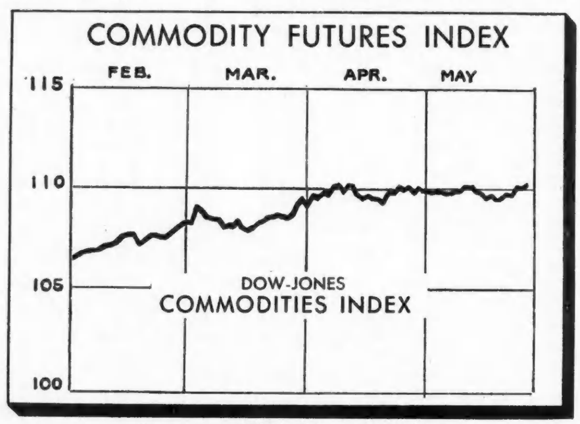
	Date May 25	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	193.1	190.2	190.0	188.3	187.0	183.8	156.9
11 Import Commodities	171.9	170.7	170.7	170.7	168.9	169.0	157.5
17 Domestic Commodities..	208.2	204.0	204.0	200.7	199.7	194.1	156.6
7 Domestic Agricultural....	251.8	239.6	239.4	235.4	232.4	228.8	163.9
12 Foodstuffs	222.8	216.6	216.3	214.9	212.9	209.7	169.2
16 Raw Industrials	173.3	172.4	172.5	170.4	169.4	166.4	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6. 1941—85.0

	1946	1945	1944	1943	1941	1939	1938	1937
High	101.1	95.8	94.5	92.9	85.7	78.3	65.8	93.8
Low	95.5	93.6	91.8	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1946	1945	1944	1943	1941	1939	1938	1937
High	110.37	106.41	98.13	96.57	84.60	64.67	54.95	82.44
Low	104.21	93.90	92.44	88.45	55.45	46.59	45.03	52.03

COMMODITY HIGHLIGHTS

COCOA . . . The cocoa outlook is favorable for the near term, but unfavorable for the long term. Arrivals of cocoa for the month of May were fairly large and for the five months to date were above the same period a year ago. Consumption in some lines will be curtailed because of strikes and inability to obtain other ingredients. Thus the supply and demand are in fair balance.

Imports for the second half of the year are likely to be below last year's level, due to the prolonged lack of new offerings from producing countries. European countries are reported to be paying almost 3 cents a pound above ceiling prices prevailing in this country. The European demand will be larger later in the year. Thus imports into the United States will be very small unless ceilings are raised. The Government is slow to act and the situation will have to get much worse before we can expect any action.

LEAD . . . Of all metals the outlook for lead supplies is the least encouraging. The domestic demand is very great, due to need for articles not produced during the war. The supply is very short, not only for domestic lead, but also for foreign. As the situation stands now, it will probably get much worse before it gets better.

Domestic mine production averaged annually 664,000 tons in the 1925-29 period. In 1942 when war demand was at its peak and when the premium price plan was in operation, the output was only 496,000 tons. Production declined progressively in the next few years and totaled only 388,000 tons last year. The steady decline in production has been due to a depletion of reserves, although strikes within and outside of the industry have been more important recently.

The curtailment in domestic production in recent years has been more than offset by an increase in imports. The 1941-45 yearly average was 276,000 tons of refined lead, a figure far above the pre-war average. Large tonnages were received from Mexico, Peru, Australia, and Canada.

The outlook is not favorable. Domestic production is still sharply curtailed by strikes. Consumption has been greater than the new supply in the past few years, so that stocks have been reduced to a minimum. Business recovery in Europe is now well under way and the demand for lead will be greater. World shipments which flowed to our shores during the war will now go to Europe. The solution to the problem is substitution, but this is a slow process. Only minor changes can be made because the chemical qualities of lead are not found in many other metals.

CORN PRODUCTS . . . When the corn bonus plan was first announced, there were reports that the entire amount would be exported to Europe. Secretary Anderson then stated that only a small part of the receipts would be exported, the balance to be turned over to the wet corn processing industry. The bonus plan, calling for a 30c a bushel extra to be paid by the Government, was halted and replaced by a 25c a bushel increase in ceiling price. It is now reported that the entire 32 million bushel purchase will be diverted to Europe for relief. The industry will be asked to process 20% of this amount.

It now appears that the corn refining industry will follow in the footsteps of the flour milling industry and gradually reduce operations until they are shut down completely. This will soon reduce the supply of many food items already on the scarcity list. Corn sugar and syrup have been supplementing the short cane sugar supply. Corn oil has been more important this year in view of the tight supply situation in all fats and oils. Breakfast foods will be reduced. Corn starch will disappear.

Almost every large industry in the country will be affected if the corn processing industry shuts down. Starch is perhaps the most important industrial item turned out by the corn industry. Its most important use is in the cotton textile industry. It is a leading item in the paper products industry, for containers, envelopes, wrappers, magazines and books. Corn starch is necessary in adhesives. Labels, sealing compounds, and paper laminates are only a few of the important uses.

When can we expect some relief? It could come immediately, if the Government sees the error of its ways and turns some of its corn holdings back to the industry. If it does not, there will be no relief until November when the new crop movement gets under way. The feeding ratios are very unfavorable this year and it appears likely that more corn from the new crop will move into commercial channels than at any time in the past five years.

The F.H.A. Plan for G.I.'s

(*Continued from page* 286)

per thousand, or $10.56, will be payable for an additional five years to complete the $2,000 secondary loan repayment.

It is natural for the Veteran to ask: "How do I benefit from the F.H.A. plan — I have larger monthly payments and I'm subject to a higher monthly interest charge?" The F.H.A. responds to the effect that the former soldier benefits by the F.H.A. approved standards for construction and by their approval of the neighborhood. Their inspections and appraisals are important to consider. However, a conservative lender operating under the "single loan plan" offers the borrower comparable protection in processing the loan.

In the matter of the "higher interest cost," there is some opportunity for the Veteran to reclaim part of the ½ of 1% paid to protect the lender. This money is allocated to the F.H.A.'s mutual insurance fund for the protection of lending institutions who utilize their loan insurance system. If the loss experience is favorable in the group to which your mortgage is assigned for insurance risk, you may receive a refund of part of your insurance premium outlay. This is dependent on economic conditions and no guarantee of a refund may be promised to the borrower.

Double Loan Plan

The double loan plan involving the F.H.A. first mortgage does offer the former soldier some advantages in conserving his guarantee. In the example of complete financing amounting to $10,000, a guarantee of $4,000 might be asked by the lender on the "single loan" plan. This would erase the possibility of additional G.I. real estate or business loans for the applicant. However, the $2,000 secondary loan issued on the F.H.A. plan would require only that amount of guarantee. This would leave $2,000 of guarantee available for another real estate home loan if it proved necessary. Or, it would permit a $1,000 guarantee to be used for a non-real estate loan. The "double loan" plan offers these advantages for the Veteran who desires to conserve his guarantee privileges.

Being easier to process with less delay for loan approval and offering more economical repayment terms, the "signal loan" plan (guaranteed or insured) is proving most popular with lender and borrower alike. The lender has less "red tape." The borrower's home loan is approved faster and he receives the most convenient terms. At this point, the single loan plan with Veterans Administration guarantee

up to **$4,000 has proved to be the** best home loan bargain for the Veteran under the G.I. Bill of Rights.

Evaluating Recent and Potential Split-Ups

(*Continued from page 277*)

have had the benefit of substantial expansion in earnings include amusements, advertising, retail stores and liquors. It is questionable whether most companies in these ordinarily prosaic industries can hold more than a small part of gains resulting chiefly from ending of wartime taxes. On the basis of recent results, earnings of several prominent department store organizations have been estimated at the annual rate of $6 to $8 a share. When it is remembered that such earnings are four to five times normal experience, it is not strange that cautious investors are inclined to feel wary toward split ups in such cases. Whiskey distillers also are making phenomenal profits from relatively low inventories. No one in the industry feels that prevailing conditions are likely to become permanent. Overproduction and keen competition have charactertized the distilling industry and it would seem rash to think that these usually adverse factors have disappeared forever. Nevertheless, the high prices of popular liquor stocks point to a possibility of further splits. National Distillers and Distillers Corporation-Seagrams have taken steps to divide their share into smaller fractions. Stockholders at special meetings in the next few weeks are expected to uphold decisions of directors to split Distillers-Seagrams stock on a five-for-one basis and National Distillers on a three-for-one ratio. It seems apparent that this action is designed to permit increases in dividends without attracting too much attention.

Airlines and textiles represent other industries which have experienced unusually favorable results in recent years. Hence, it is not surprising that companies in these groups have followed the customary pattern. American Air Lines, Eastern, Pan American and others have effected splits in recognition of exceptional growth. In the textile field, United Merchants & Manufacturers, Industrial Rayon, Burlington Mills, Pacific Mills, Textron and other smaller concerns have joined the split parade. Celanese Corporation has been mentioned as a likely candidate in view of the fact that earnings have shown steady improvement and the price of the shares have reached a level which may seem to warrant consideration of a split.

As in the case of drugs, it seems quite possible that rayon companies may be able to maintain earnings on a permanently higher plane. This then would seem to justify more liberal appraisal of equities.

Other companies which have gained popularity recently in

anticipation of favorable action along this line include: American Safety Razor, Chrysler, Cunningham Drug Stores, Ekco Products, Grand Union Company, Lambert, Montgomery Ward, National Oil Products Company, Southeastern Greyhound, United Biscuit and Yale & Towne. The prospect of price appreciation in connection with stock splits has had the usual effect of stimulating speculative interest in these issues.

The trend toward splits may be moderated for a time under more careful scrutiny by the Stock Exchange. Exchange authorities recognize the necessity for sub-division of capitalization in the case of many small growth concerns, however, and where economics justify favorable action, the Exchange undoubtedly would approve split proposals. Obviously authorities, on the other hand, would frown upon action which seemed designed chiefly to stimulate speculative activity and to permit distribution of stock by insiders.

Lowering prices of shares through the medium of splits usually simplifies the distribution of stocks to the public. In past periods of speculative enthusiasm, the practice of split-ups has been looked upon with skepticism by experienced investors. It may be a bit early to become alarmed over this phenomenon, but in years to come, it would not be strange if adverse economic conditions brought about numerous "reverse split-ups." Accordingly, the cautious investor will do well to weigh probable permanence of higher earning power of companies currently authorizing capital split-ups.

Growing Importance of the Natural Gas Industry

(*Continued from page* 279)

major boon.

In competing with coal and petroleum as fuels, natural gas, for mechanical reasons, is limited to markets where the use is stationary, for in marine or surface transportation its use is impractical to date. In all cases, of course, price will be the determinant factor, but here the distributors face a less encouraging factor in the Federal Power Commission, which fixes wholesale rates the distributors may charge for gas crossing State boundaries. As these rates are generally based upon capital values rather than volume, earnings of the industry are not likely to keep pace with prospective sales growth. Net profits, on the other hand, while subject to cyclical influences at times when industrial sales shrink, are relatively stabilized by small variance in sales of gas for household consumption. In the 1929-32 period, for example, dollar sales to industry fell by 37% against a decline of only 4½% to domestic consumers. As profit margins on the latter class of business are wider than on industrial sales, net earnings are fairly dependable at all times, a characteristic enhanced by a consistent record of secular growth in sales.

Selected Gas Producers

Competition in the industry is naturally somewhat restricted by the ability of this or that natural gas producer to reach distant markets, except where sales are made to close at hand localities or to makers of carbon black. For this reason shares of American Light and Traction carry some speculative appeal because through one of its subsidiaries it expects to spend some $70 million dollars for a 1200 mile pipeline to reach from Oklahoma to inviting markets in Detroit. The yield of about 4.6% on these shares at recent price of 26 is also attractive.

Among natural gas companies enjoying a long record of stable earnings is Lone Star Gas Co. This integrated operator confines its business chiefly to the State of Texas, deriving its gas from the Panhandle district and piping it to the growing cities of Dallas and Fort Worth. During the past 17 years this concern has established an unbroken performance both as to earnings and dividends, the latter trending upward gradually from a low of 60 cents per share in the mid-30s to 70 cents in 1944, while 20 cents per share featured the first quarter of 1946. The stability of Lone Star's earnings is due to the preponderance of its sales for household consumption, although its industrial customers create a substantial volume. As relief from excess profits taxes in 1946 is likely to expand net earnings somewhat above the 97 cents per share reported in 1945, it would seem as if the current dividend rate will be safely covered.

Another important unit in the Texan natural gas industry is El Paso Natural Gas Co., its pipelines serving not only the city of

its name but Phoenix and Tuscon in Arizona as well. Large copper companies and utilities afford a steady outlet for the company's output in addition to domestic sales, and as all gas is sold on long term contracts at a fixed price, above-average control of costs is possible. Operating revenues in 1944 came from the following sources: public utilities—28% for resale and 7% for electric generation, the copper industry—42%, industries—23%. Since 1937, net earnings of this concern have ranged from $3 to $3.75 per share, taxes in war years bringing net down slightly to $3.58 in 1944 and $3.56 in 1945. Dividends have trended upward from $2 per share in 1937 to $2.40 in the past four years. As gas reserves of this concern are very large, it has applied to the FPC for permission to construct a 720 mile pipeline from New Mexico to the California-Arizona line, with a daily capacity of 125 million cubic feet. Southern California Gas Co. is expected to contract for the gas delivered and may share in financing the $25 million project. As this proposed expansion undoubtedly will enhance profit potentials, shares of El Paso Natural Gas Co. have a substantial attraction in their aspect of investment stature and speculative possibilities.

Oklahoma's two largest cities, Oklahoma City and Tulsa, are served with natural gas by Oklahoma Natural Gas Co. Company buys most of its gas on long term contracts from producers in the State, and due to efficient cost controls sells to a constantly expanding list of consumers at relatively low prices. As about 73% of volume comes from domestic and commercial sources, earnings are not only stable but on the ascent in recent years. Under the able supervision of Stone & Webster, net per share for the past six years has never dropped below $3.12; the showing for 1945 was $3.53, after allowance for preferred dividends. Dividends since 1942 were at the rate of $1.40 per annum until last year when $2 per share was established.

While space limitations preclude discussion of all the concerns listed on the appended table, it will be noted that several of them are outstanding large companies to whom handling of natural gas is only a side issue to their diversified business. On the whole, however, it has become apparent that as time goes on, natural gas will contribute more and more to the earnings of various public utility companies, and that producers and distributors of this popular fuel stand to benefit from the same secular growth that is characteristic of better known segments in the utility industry.

Another Look At . . . . .

(*Continued from page* 281)

conservative course of action in deferring dividends on the Class A stock. Strike difficulties contributed to the large deficit in the March quarter but management apparently is not hopeful of any substantial improvement in the remainder of the year.

Bendix Aviation faces a major reconversion problem. Substantial progress already has been made and although recent management changes have led to some confusion, the long range outlook seems reasonably promising. The company recently reported net profit of $7.32 a share for the fiscal year ending September 30, 1945. This represented a slight gain over the preceding year. Sales volume has fallen sharply this year as a result of cancellation of war contracts, but management apparently seems confident of maintaining respectable earnings. The company seems well situated to benefit from a high rate of activity in the motor car industry as well as from aircraft manufacture and expansion in the radio field.

Columbia Broadcasting System may have passed the peak of its high earnings for this period. Ending of excess profits taxes seems likely to reduce expenditures for advertising by some organizations which have been largest in the use of radio time. Columbia and other major radio chains already had sold about all the time available and without the benefit of increased rates had approximately reached the limit of earning capacity. Meantime, expenditures for television experiments have been increasing and ordinary labor costs continue to mount. Earnings seem likely to show improvement this year primarily as a result of ending of excess profits taxes.

The acute shortage of wheat has cast a slight shadow over the outlook for Pillsbury Mills. Plants have been shut down for several weeks pending receipt of new wheat from the winter crop. Although operations for the fiscal year ending June 30 have been somewhat restricted by this development, indications point to earnings comparing favorably with the $2.46 a share shown for the year ended June 30, 1945. Confidence in the long range outlook was suggested by the action of directors in ordering the usual 40 cent year end extra dividend bringing distributions to $1.60 a share, the same as in the preceding year. The worldwide demand for food seems likely to continue for many months and this should contribute to a high rate of operations for Pillsbury and other flour mills. If the 1946 wheat crop reaches optimistic expectations, Pillsbury should have an unusually satisfactory year in the twelve months beginning July 1.

If it were not for the flour shortage, Purity Bakeries undoubtedly would be experiencing record breaking earnings. Operations have been hampered by limitations on the use of raw materials but earnings apparently have been reasonably well maintained. Moderate price increases have compensated to some extent for reduced output. The high industrial purchasing power which normally determines consumption of bread and pastries seems likely to remain a favorable influence for a considerable period ahead. Scarcity of sugar and shortening has made home baking more difficult and thereby has contributed to greater demand for products of commercial bakers. Purity reported earnings in the first sixteen weeks this

year well ahead of the corresponding period of 1945 and barring unforeseen handicaps this trend seems likely to continue throughout the year.

On the basis of statistics, Transcontinental & Western Air presents a difficult situation to analyze. The war with its tremendous emphasis on aircraft enabled TWA and other domestic airlines to strengthen their claim for participation in the international field. TWA was successful in obtaining approval of applications for attractive routes to southern Europe. Extension of domestic lines also has contributed to growth potentials. Accordingly, on the basis of prospective traffic, TWA appears to have more encouraging prospects than such strong competitors as American Air Lines and Pan American Airways. TWA has pioneered in large transports for which premium rates are obtainable. Indications point to the relatively high load ratio for a considerable period ahead.

Expenses in connection with development of new territory and acquisition of additional planes seem likely to be substantial. Management seems more concerned with long range prospects and may be content with relatively slow earnings improvement in the meantime. Hence, an appraisal of the company's outlook depends considerably on which viewpoint is taken. For eventual development, TWA deserves consideration as one of the most attractive airlines.

Re-appraisal of Rail Securities

(*Continued from page* 269)

1926 to 0.932c in 1942. Due in part to higher rates on stimulated war traffic, revenue per ton mile rose to 0.949c in 1944.

Today, from the railroad viewpoint, its competitive status as compared with the truck has changed materially for the better. Operating costs of truckers have risen far more rapidly than those of the rails since the mid 30s. Large scale unionization of truck employees, and rising terminal costs, the end of which is not as yet seen, both operated to bring about this result. During the war trucking costs rose substantially as evidenced by reports made to the I C C. Those truckers reporting to the Commission, consisting of the largest and most important inter - city truckers, have consistently reported operating ratios of over 99% in recent war years, in marked contrast to operating ratios well below 70% for the rails (1942 operating ratio Class 1 rails, 61.6%).

Admittedly the railroads have permanently lost a substantial portion of their LCL traffic to trucks, which possess definite advantages of flexibility and speed as compared with railroads. Accordingly trucks are likely to remain as an important competitive factor of the rails, and investors must not for a moment relax and divert their attention from developments in the trucking field such as use of trailers, relaxation of state weight and length laws, etc. For the present, however, the truckers are more squeezed than the railroads and far more in need of a rise in freight rates, and as a result, the railroads have made competitive gain at their expense, gains which they probably will maintain throughout the next decade, if not longer.

Inland waterways provide a threat to railroads all out of proportion to the negligible traffic they carry. In fact total traffic carried is small as compared with the truckers. Yet, as in the case of the latter, this unfair competition has resulted in forced reduction of rates by those carriers paralleling waterways where barge lines operate. The extent of continuation of the unfair waterways competition is dependent entirely on political pressures and developments. On purely economic grounds, were the barge lines to pay for cost of maintenance of their right of way, i.e., dredging operations, future threats to the railroads would be negligible.

Airplane competition is twofold, a. passenger and b. freight. With regard to the former, railroads are, on the whole, resigned to losing a substantial portion of their long haul Pullman traffic. However modernization of coach travel should enable the railroads to maintain a large percentage of their war time gains, primarily at the expense of bus lines.

No study of the railroad industry would be complete without considering, in addition to the improvement both of its finances, already recorded, and its improved competitive status, the outlook for general business over the next decade. Without exception the United States has enjoyed a long period of prosperity following every major war. The next decade should prove no exception. The backlog of housing alone should permit a period of major activity of the heavy industries over a period of from eight to ten years. Barring the unpredictable, an average of 900,000 homes may well be built

over the next decade which would compare with an average of 600,000 built during the 1920's and an average of 300,000 built in the 1930's. Additionally, the deferred demand for automobiles, refrigerators and other miscellaneous semi-durable goods should stimulate activity in all basic heavy industries such as steel, coal, copper, lead, etc.

Should our forecast be correct, therefore, namely that our heavy industries should provide the basis for expectation of continued activity in the heavy industries for a period of a decade or thereabouts, it follows that the railroad industry must automatically be one of the major beneficiaries of such a development. In fact, we envisage gross revenues for the Class I railroads of some $7 billion for a series of years, as compared with an average of $6 billion in the 1920's and $3.5 billion in the 1930's. Gross revenue from the building industry alone should reach $1.5 billion, equivalent to 50% of total gross revenues of the railroad industry in the depression year 1933. The other reasons for anticipating gross revenues in excess of levels of the 1930's include:

(1) The heavy backlog of consumer durables, with a possibility of manufacturing 6,000,000 automobiles for several years running.

(2) Probable elimination of the A.A.A. which will be of particular benefit to the granger roads whose traffic was severely restricted by a loss of tonnage arising from an economy of scarcity fostered by this governmental body. Among the specific carriers which will benefit include Chicago & North Western; Chicago, Milwaukee & St. Paul; Northern Pacific; Great Northern; Rock Island and Missouri Pacific.

(3) A higher level of export business, possibly twice that of the depression 1930's. Major beneficiaries in the event of such development would include Santa Fe; Missouri, Kansas, Texas; Burlington (Colorado & Southern), Illinois Central, Southern Pacific and New York Central.

(4) Recapture of substantial amount of L.C.L. traffic, high revenue freight formerly lost to trucks.

(5) Because of the troubled international situation, probability of an army and navy of higher levels than ever before in our peace time history. A larger army and navy would automatically require greater amounts of durable goods to supply both services, such as ammunition, mechanized equipment, new warships, etc., which will be a factor in prolonging the demand in the heavy industries. As a consequence it will tend to smooth out the peaks and valleys of our future business cycles.

Coincident with the abolition of land grant rates on September 30, 1946, any increase of traffic arising from a larger peace time army and navy should find reflection in still higher gross revenues than projected.

At this juncture, the reader's attention should be directed to the increased operating efficiency of the Class I carriers resulting from huge capital expenditures made in recent decades. From 1922 until 1941, the last year in which war influences were not marked, the daily mileage per serviceable freight car increased 78%, daily mileage per active freight locomotive rose 35%, and meanwhile fuel consumption per 1000 gross ton miles decreased 32%.

It is evident that costs of railroad operations have been drastically reduced in recent years. In the six year period alone, 1940-45, capital expenditures totalled some $3 billion. Of this sum over $1 billion was spent under provisions permitting amortization over a period of five years. An average return of from 15 to 20% is generally realized on new capital expenditures. Hence, everything else being equal, our railroad plant can now be operated more efficiently than ever before to the extent of from $450 to $600 million in savings annually.

In the past 20 years, with the sole exception of 1931, wages have absorbed from 46 to 49% of gross revenue. This record is striking in the light of the rise in both average hourly wages and of gross annual payments. Table IV will furnish significant statistics of employment and wage trends. Especially to be noted is

Investment Yardsticks of Selected Rail Securities

	1929			1944			1945			‡Estimate		
	Avail. for Fixed Chgs. (Mill.)	Fixed Chg. Coverage (Times)	Earned per Sh.	Avail. for Fixed Chgs. (Mill.)	Fixed Chg. Coverage (Times)	Earned per Sh.	Avail. for Fixed Chgs. (Mill.)	Fixed Chg. Coverage (Times)	Earned per Sh.	Avail. for Fixed Chgs. (Mill.)	Fixed Chg. Coverage (Times)	Earned per Sh.
Highest Quality												
Norfolk & Western	$47.1	8.99	$29.14	$32.9	15.48	$21.23	$25.7	12.04	$16.11	$32.5	15.47	$21.05
Union Pacific	66.9	3.79	20.37	56.2	3.71	16.68	46.9	3.37	13.07	47.5	8.33	17.02
Good Grade												
Santa Fe	74.0	5.68	22.59	64.6	6.41	19.91	38.6	4.19	9.56	50.8	5.84	14.80
Ches. & Ohio....................	46.9	4.53	4.77	34.5	4.84	3.57	23.4	3.32	2.14	48.7	6.86	4.87
Great Northern (Pfd)*..	44.4	2.36	10.31	36.3	2.81	8.03	34.1	3.43	7.81	31.7	4.16	7.78
Louisville & Nash. (adj. 2 to 1)†............	24.8	2.24	11.75	27.0	3.21	15.90	24.7	3.43	7.49	26.6	5.21	9.18
Semi-Speculative												
Atlantic Coast Line........	19.2	2.63	14.48	21.6	3.93	19.54	10.2	2.19	6.71	16.5	4.13	15.19
Southern Pacific	77.6	2.57	12.74	61.4	2.49	9.73	59.1	2.27	8.77	50.0	3.12	9.02
New York Central	137.9	2.28	16.69	82.0	1.77	5.55	68.5	1.55	3.79	77.3	2.03	6.09
Northern Pacific	36.9	2.45	8.79	26.9	1.96	5.30	25.3	1.84	4.66	22.8	2.45	5.44
Baltimore & Ohio............	57.6	2.00	10.31	48.3	1.76	7.24	42.5	1.60	5.29	43.1	1.96	7.33

* Sole Equity of the road.
† Unadjusted up to 1944. Earnings for 1945 and estimated post war adjusted for the 2 for 1 split made in December, 1944.
‡ Indicates first 12-month period of full industrial production.

war. These figures bespeak volumes as to managerial efficiency in controlling wage costs and there is no reason to anticipate the railroad managements will do other than to take the current wage increase in its stride and aided by a moderate freight rate increase, maintain the trend to greater labor efficiency through application of modern technology to railroad operating problems.

Table IV

Employment and Wage Trends

	Average Hourly Earnings	Ratio (%) Payrolls to Operating Revenue	Ratio (%) Payrolls to Operating Expenses
1944	$0.964	40.9	61.4
1942	0.852	39.3	63.7
1940	0.751	45.7	63.6
1936	0.691	45.6	63.1
1932	0.636	48.4	62.9
1929	0.666	46.1	64.3
1926	0.631	46.2	63.1
1920	0.676	59.6	63.2
1916	0.283	40.9	62.3

Source: Interstate Commerce Commission

The investor should not infer that the industry is entirely free from adverse factors. The full effects of advancing wages may not have been seen even with the current rate advance. Passenger traffic will continue to be lost to air lines and passenger cars, over the longer term, despite the popular appeal of the new streamline trains. Also the long term pattern of railroad traffic failing to keep up with industrial productivity, may once more be resumed when competitive transportation conditions again assert themselves. Finally wartime advantages of long hauls and full carloadings, already reduced by shorter peacetime hauls, will further be reduced when full loading is no longer officially required. However adverse these factors may be over the longer term, we believe the average investor can minimize their importance until at least the present industrial and security cycle runs its course.

It is evident from the foregoing that in contrast with many investment analysts we do not view prospects for the railroad industry or its securities with jaundiced eyes. In fact, we point to the bloodless verdict of the market place which controverts this view since it is clearly evident that railroad credit has been restored. If proof be needed, we have but to draw attention to the successful flotation of bonds on a 3% basis, or less, of companies which narrowly averted bankruptcy in the 1930's. Nickel Plate and Southern Pacific issues are a case in point. With the possible exception of junior bonds of Illinois Central, New York Central and Baltimore & Ohio among the larger systems, and of the Lehigh Valley and Lackawanna, two anthracite carriers, the investor no longer can obtain bonds at any worthwhile discount unless he confines his purchases to income bonds. Even

hese remaining opportunities are ikely to disappear during the ext twelve months and in due ourse equities must, and doubtless will, respond to the favorable orces emphasized in this study.

Among the desirable second rade issues available today are hose listed in Table III.

Among equities there seems ittle question but that two issues re entitled to the highest investment rating, namely, Norfolk & Western and Union Pacific. The atter is particularly outstanding ince through refunding and robable payment of $156 million of underlying debt, (out of ts better than $238 million of orking capital), fixed charges ill probably have been reduced rom $17.7 million in 1929 to 5.7 million in 1947-48. Additionally rising income from its oil roperties, which may reach a evel twice that of anticipated ixed charges within the next 12 o 18 months, and large other income from its $75 million investment portfolio, as well as its large oldings of Pacific Fruit Express, and other valuable subsidiaries, renders the stock unique as mong railroad equities. In fact, ransference of funds from American Telephone & Telegraph nto this premier rail may prove imely and profitable since earnings on Union Pacific should exceed $15 per share over the next ecade and prospects for restoration of its former $10 dividend by he middle of 1947 are extremely right.

Medium Quality Equities

Good grade equities possessing ot quite as much quality as Norfolk & Western and Union Pacific include Santa Fe; Chesapeake Ohio; Great Northern and Louisville & Nashville. Attractive on somewhat speculative basis are he following: Atlantic Coast ine; Southern Pacific; New ork Central; Northern Pacific nd Baltimore & Ohio.

Salient statistical data on each f these equities for the years 929, 1944 and 1945 are furished, as also our estimates for n average postwar year of full roduction.

Answers to Insurance Inquiries

(*Continued from page* 287)

tract which is known as an Annuity. Under the terms of the contract you pay $20,000 as indicated in one sum and then receive monthly or quarterly instalments during your life. If you elect to take the type of contract without refund, then the insurance company will pay you an income of $140 per month as long as you live. On the other hand if you feel that you want a refund then the company would pay you $101.80 per month. However under this latter contract if death should occur before you have received back the full $20,000 you originally deposited the company would still continue payments to any beneficiary you have named, until they have paid out an amount exactly equal to your original deposit.

Interesting Circulars

FOR OUR READERS

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On request on your letterhead, **but** without obligation, any of the circulars listed below will be sent direct from the issuing firm. **Limit each letter to a request for one circular,** giving your name and address.

ADDRESS: Booklet Department — Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

For Business Executives: A valuable 20 page booklet on business management will be sent free when requested on your Company's letterhead.

Primer for Investors—Guide book for new investors to explain the terminology of Wall Street. Also a section devoted to estates, trusts and wills Prepared by large N.Y.S.E. member firm.

Know-As-You-Go Guide—Descriptive leaflet of the Handy Record Book for investors, providing a simplified record of capital gains and losses. Method outlined to keep investment records in "automatic" order.

For Profit and Income

(*Continued from page* 289)

tomary share, assuming that volume, Deere & Co., second largest in the field, ought to be able to net somewhere around $6-$7 a share.

Where Do We Stand Now?

(*Continued from page* 258)

in the South, and as these two rival factions battle for supremacy, a new series of strikes and wage demands may well crop out.

Inevitably, this will tend to retard the rate of economic recovery, and may well result in a curiously mixed business pattern for the balance of the year. Unless the outlook changes substantially, the boom will continue in the "lighter" industries and those less vulnerable to union pressure—foods, drugs, clothing, textiles, small household items, tobacco products and similar lines. Conversely, the heavier goods industries—both "capital" goods and consumer non-durables—will feel the effect of the strikes to date, to say nothing of those which may yet develop, so that their rate of recovery will be correspondingly retarded.

This inevitably will show up in the F.R.B. industrial index, but just how far cannot be predicted at present. Factory payroll totals will also decline to some degree. Retail sales volume, however, should continue at a very satisfactory level, unless the labor crises become quite grave, but the rate of increase over the 1945 months will be less impressive from now on, particularly as we get into the Fall and Winter.

As I See It!

(*Continued from page* 253)

tance which has developed in recent months may act as a brake—at least for the present—on the Russian expansion movement.

But if a turn in the tide develops, it would be the better part of wisdom to wait long and weigh carefully before concluding that the leopard has changed his spots,

Where Diversification Will Spur Corporate Earnings

(*Continued from page* 260)

dustry. Aviation Corporation, as a heavy investor in Consolidated-Vultee Aircraft Corporation and several other concerns in the same field, has attempted to broaden its activities by acquiring several concerns engaged in business of an entirely different nature. Chief among these was the Crosley Corporation, makers of radio sets, refrigerators and various household appliances. For still wider diversification, control of New Idea, Inc. was also acquired, thus thrusting Aviation Corporation into the farm implement business. While it is questionable whether much savings in overhead or sales costs could result from adding these widely disassociated lines to aircraft items, the aggressive policies and ample resources of the parent concern could go far in developing the business of the newcomers, both of whom normally would benefit from large latent demand for their respective products. And while the aircraft industry may require considerable time for growth, earnings from the other sources might assure a more stable income for holders of Aviation shares.

And so the story could be continued almost indefinitely, although in many instances not covered in this brief discussion, the wisdom of diversification may prove to be a more temporary blessing than for the concerns selected for our list.

Answers To Inquiries

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pared with $83,000,000 at the end of 1944, which included principally orders from the Army for the C-82 Packet Airplane. The contract for these planes was increased early in 1945 and the quantity has since remained unchanged with deliveries scheduled to continue until mid-1947.

The President of this company announced recently the formation of two new divisions of the Corporation—The Fairchilds Personal Plane Division, now delivering the 1946 model of the F-24, four place cabin monoplane, and the Pilotless Plane Division, which is developing for the Navy a highly technical and original product in the field of pilotless aircraft.